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**C/19/MCOM/4/SEM/COM-402/7**

**2019**

**M.COM**

**4<sup>th</sup> Semester Examination**

**INTERNATIONAL FINANCIAL MANAGEMENT**

**PAPER – COM-402**

**Full Marks : 50**

**Time : 2 Hours**

**The figures in the right-hand margin indicate full marks. Candidates are required to give their answers in their own words as far as practicable.**

**Illustrate the answers wherever necessary.**

**(Turn Over)**

**UNIT-I**  
**(Marks : 20)**

1. Answer any **TWO** of the following questions: **2x5**

a) (i) Briefly describe the phenomenon of currency appreciation and currency depreciation with suitable illustration.

ii) Forward premiums for the US dollars (in paise per US \$) are given below: **3+2**

Month	Exporters	Importers
April	17	18
May	32	33
June	44	46
July	57	59
August	68	70

The spot rate for the US dollar is Rs.68.75 (bid rate) and Rs.69.15 (offer rate).

Find out forward rates for the different months

b) (i) What are cross rates? Illustrate with examples. **3+2**

(ii) Find Rs./Euro exchange rate if the two exchange rates are:

- (I) Rs.68.75-69.15/USD \$; and  
(II) Euro 0.83-084/USD \$.

c) Discuss any three important forex dealings. **5**

d) What are the fundamentals factors affecting exchange rate fluctuations? **5**

**2. Answer any ONE of the following questions: 1x10**

a) What do you mean by Fisher effect? Is it true that interest rate differential equals inflation rate differential? Explain. **4+6**

b) (i) The inflation rates in India and USA over the year are expected to be 7.5% and 4% respectively. The current dollar-rupee exchange rate is Rs.69.15/USD \$. The interest is likely to be 5% in the USA. What would be the expected nominal interest rate at the year end? **4x2.5**

(ii) If the interest rate in India is expected as 9.5% against the interest rate of 5% in the USA, what would be the dollar-rupee exchange rate after one year, given that the current exchange rate is 1 USD \$=Rs.69.15

iii) The inflation rates in India and USA are expected to average 7.5% and 4% over the year, respectively. The nominal interest rate in India is 11.75%.

What would be the nominal interest rate in the USA?

(iv) The current exchange rate between the US dollar and the Indian rupee is USD \$= Rs.69.15. The inflation rates in India and the USA are expected to be 7.5% and 4% respectively, over the next two years. What would be the dollar-rupee exchange rate after two years ?

**UNIT-II**  
**(Marks:20)**

**3. Answer any TWO of the following questions: 2x5**

- a) Write a short note on parallel loans. **5**
- b) What is economic exposure? How can it be managed? **2+3**
- c) The following is the detail of estimate regarding a project in US that is being considered by AB Ltd., an Indian-based company.

Initial investment: \$ 5,00,000

Estimate of sales- Year 1: 42,000 units @\$50/unit, Year 2: 50,000 units @ \$53/unit, Year 3: 69,000 units @ \$58/unit and Year 4: 88,000 units @ \$65/unit

The variable cost per unit in year 1 is \$22 which is expected to go up by \$2 every year.

The amount of fixed costs is \$3.25,000 per year. Furthermore, the initial amount of depreciation is \$20,000 which will increase by 20% every year. As per the taxation laws in US, the income tax rate is 21% and the withholding tax rate is 30% on remitted funds.

The spot exchange rate is Rs.68.80/USD \$

The salvage value is \$90,000 at the end of the fourth year.

Assuming the cost of capital to be 14%, you are required to comment on the acceptability of the project. **5**

- d) Discuss fixed and floating rate bonds as a source of raising finance. **5**

**4. Answer any ONE of the following question: 1x10**

- a) (i) What is Global Depository Receipt? Mention the advantages of raising finance using this route.

(ii) What are the different factors on which translation gain or loss depends? **3+3+4**

- b) (i) Explain the term 'syndicate loan' with the help of an example. What are its advantages?

(ii) Bahadur Ltd., an Indian-based company exported machineries worth £2,00,000 to Hefty Ltd. which is based in London. As per the terms of the agreement, the credit period is 4 months. The company feels the need to hedge its receivables as it expects the appreciation of the domestic currency.

The following details are given to you:

Spot rate: Rs.88.90/£

4-months forward rate: Rs.86.50/£

Interest rate in India per annum:

Deposit-6.3% Borrowing-9.6%

Interest rate in UK per annum:

Deposit - 0.9%, Borrowing - 2.1%

You are required to compute the cash inflow using money market hedging. **2+3+5**

**( Internal Assessment: 10 Marks )**