# 2011

# M B A

## 4th Semester Examination

## INTERNATIONAL FINANCIAL MANAGEMENT

## (Specialization : Financial Management)

**PAPER—F 402**

*Full Marks* : 100

*Time* : 3 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.*

***rite the answers to Questions of each Half in separate books.***

### First Half

(Marks : 50)

1. Answer any *four* of the following questions : 5×4

(a) What is Multinational Corporation? What benefits this form of business enjoys?

(b) In the context of the foreign exchange market, explain the following terms :

(i) Bid-Ask Rates and (ii) Direct and Indirect Quote.

(c) To avoid the risk of fluctuations in Rupee-(US) Dollar exchange rate on an export proceeds of \$ 62,500, an Indian exporter buys a put option with an option

(Turn Over)

premium of Rs. 0.05 per dollar and an exercise pri
of $1 = Rs. 46.30. What decisions the exporter w
take to exercise the contract or not to exercise
depending on the following alternate spot rates :
(i) $1 = Rs. 46.20, and (ii) $1 = Rs. 46.60?

(d) In the context of foreign exchange market, what c you mean by Cross Rates? Explain it with a suitab example.

(e) Explain 'Intrinsic Value' and 'Time Value' of an Optio contract.

(f) Explain how interest rate can affect the currenc exchange rate.

2. Answer any *two* of the following : 10×2

(a) (i) Prove that in the absence of transaction cos 'Forward Exchange Rate' is equal to the 'Expecte Future Spot Rate'.

(ii) How can you compute Direct Exchange Rate usin Cross Rates under transaction cost regime?

3+7

(b) (i) Explain 'Effective Exchange Rate' and 'Rea Exchange Rate'.

(ii) 'A Futures contract is similar to a string of bet on exchange rate.' Explain the statement. 5+5

(c) (i) What are the steps in Arbitrage transactions? What arbitrage principle would you suggest for a prospective investor to ensure his gain?

(ii) With the help of an example, draw the Payoff Profile for the Writer of a Put Option. (3+2)+5

[ ***Internal Assessment : 10*** ]

## Second Half

(Marks : 50)

5. Answer any *four* questions : 5×4

(a) Identify and explain the factors that add complexity to Capital Budgeting decisions for projects.

(b) Why does an international firm hold cash?

(c) (i) An American based multinational corporate firm has a subsidiary in India. The subsidiary is planning to issue 17% pref. share (non-participating) of Rs. 100 each at par. Flotation costs of the expected sale price are estimated at 5%. Determine the cost of pref. shares.

(ii) From the following facts, determine the repatriated profits available to the parent :

P is Rs. 1 million in the 1st year

Corporate tax rate is 40%

Retention rate is 20%

[P = Profits of the subsidiary before taxes]

$2\frac{1}{2} \times 2$

(d) What is securitisation?

(e) A project involves initial investment for $ 50,00,000. The net cash inflow expected during the first, second the third years are $30,00,000, $ 35,00,000 and $ 20,00,000 respectively. At the end of the third year, the scrap value is indicated at $ 10,00,000. The risk-adjusted discount rate is 10%. Calculate NPV.

(f) Explain parent cash flows and project cash flows in relation to foreign investment analysis.

4. Answer any *two* questions : 10×2

(a) What are the specific factors that a MNC must consider while formulating its working capital policy ? Discuss fully. 10

(b) (i) From the following facts, determine the effective local cost of debt of a US subsidiary in India :

Principal amount of debt : Rs. 2 billion

Rate of interest : 16%

Floatation cost of debt : Rs. 120 million

Interest is to be paid at the end of each year and the principal sum borrowed is to be repaid in a lumpsum at the end of the 5th year. The subsidiary is subject to no taxes in India.

(ii) A has floating-rate funds on which it is paying LIBOR + 0·3 percent. But it could borrow fixed rate debt at 10·50 percent to be computed half yearly. B has fixed rate debt on which it is paying 9·50 percent. But it could borrow floating-rate funds at 6 months LIBOR flat. Can the two counterparties go for interest-rate swap ? If so indicate the gains accruing to them including swap dealer. 5+5

(c) Briefly discuss the steps in International Cash Management. 10

[ ***Internal Assessment : 10*** ]

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