PG/IIS/CM 1204/09

M.Com Second Semester Examination 2009

INTERNATIONAL BUSINESS FINANCE

PAPER—CM - 1204

Full Marks : 50

Time : 2 hours

The figures in the right-hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Illustrate the answers wherever necessary

UNIT—I

1. Answer any *two* of the following : 5x2

   (*a*) State the reasons why firms have to be engaged in international business.

   (*b*) Analyse the basic variables in economic environment relevant to international business.

(*Turn Over*)

(*c*) What are the modes of operation in international business ?

(*b*) What is the importance of international political environment in international business ? Which factors are to be considered for assessing political risk ?

2. Answer any *one* of the following : 10×1

(*a*) Critically examine the role of multinational corporations in less developed countries.

(*b*) Draw an illustrative structure of Balance of Payments with brief discussion on each of the components.

UNIT—II

3. Answer any *two* questions : 5×2

(*a*) Explain the characteristics of foreign exchange market. 5

(*b*) Write a short note on netting technique. 5

(*c*) Given that US is the domestic country, how will the following affect exchange rate between dollar and the rupee ?

(*i*) The interest rate in India rises substantially compared to USA and

(*ii*) The income level in USA reduces substantially relative to that in India. $2\frac{1}{2}+2\frac{1}{2}$

(*d*) Boeing imported a Rolls-Royce jet engine for £ 5 million payable in one year. The market information is as follows :

US interest rate : 6·00% p.a.
UK interest rate : 6·50% p.a.
Spot rate : \$ 1·80 / £
Forward rate : \$ 1·75 / £
(1-year maturity)

A call option is available whose exercise price is \$ 1·80 / £ with a premium of \$ 0·018/£ .

You are required to calculate the break-even spot rate at which Boeing would be indifferent to forward hedge and currency options hedge [consider the effect of time value of money]. 5

4. Answer any *one* of the following : 10x1

(*a*) (*i*) What are the points of difference between a forward contract and a futures contract ?

(*ii*) An American firm has a 180–day payable of AUD 10,00,000 to an Australian supplier. The market rates are :

Spot rate : AUD 1·2175 / US $

180–day forward rate : AUD 1·2086/US $

Interest rate in USA = 4·5 %p.a

Interest rate in Australia = 3·0% p.a

You are asked to determined the US dollor outflow 180 days hence using money market hedging strategy. 5 + 5

(*b*) (*i*) How do the exporters and importers hedge in the market for currency options ?

(*ii*) You are required to calculate the translation gain or loss (using current/non-current method) in the given situation based on the data given by *ABC*, a US based firm relating to its subsidiary in UK :

Balance Sheet of *ABC* UK
as on 31.12.2008 [figures are in lakhs]

Liabilities	£	*Assets*	£
Common Stock	50	Net plant & machinery	150
Reserves	120	Inventory	60
Long-term debt	45	Sundry debtors	80
Short-term bank loan	38	Cash in hand and at bank	15
Sundry Creditors	52		
	305		305

It also provides the following information :

(*I*) The historical exchange rate is \$ 1·60/£ .

(*II*) The current rate (on 01. 01. 09) is \$ 1·67/£.

(*III*) Common stock was issued when the exchange rate was \$ 1·45 / £.

(*IV*) The translated amount of reserves is \$ 180 lakhs. 5 + 5

[*Internal Assessment* : 10 Marks]