



IV Semester M.Com. (FA) Examination, June/July 2018  
(CBCS)

Paper – 4.3 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 70

SECTION – A

Answer **any seven** of the following sub-questions in about **3-4** lines. **Each** question carries **two** marks. (7×2=14)

1. a) What is cross currency quote ?
- b) What is 'arm-length' price ?
- c) Explain the components of BOP.
- d) Define international leasing.
- e) Explain leading and lagging techniques.
- f) What is meant by covered interest arbitrage ?
- g) What is expropriation ?
- h) What is pegging of currencies ?
- i) Distinguish T.T. buying and T.T. selling rates.
- j) Define currency swap.

SECTION – B

Answer **any four** questions in about **one** page **each**. **Each** question carries **five** marks. (4×5=20)

2. Write a note on foreign currency bonds.
3. What is political risk ? Explain any one method to measure political risk.
4. Differentiate between economic and translation exposures.
5. ABC Ltd. has a debt equity ratio of 1 : 2 and after tax debt is 8%. Suppose that a foreign project has a Beta of 0.95, the risk free rate of interest is 10% and the required rate of return on market is estimated at 18%, what is the cost of equity and weighted average cost of capital ?



6. From the following particulars, calculate the possibilities of arbitrage.

Spor rate - Rs. 66.46/USD

6 months forward rate - Rs. 66.78/USD

Annualised interest rate on 6 months rupee - 12%

Annualised interest rate on 6 months dollar - 8%

Assume an investment of USD 10,000 and determine the profit.

7. Following are the details of cash inflows and outflows in foreign currency denominating of ABC Ltd., an Indian export firm which does not have foreign subsidiaries. (value in lakh)

| Currency                      | Inflow | Outflow | Spor rate<br>Rs. | Forward rate<br>Rs. |
|-------------------------------|--------|---------|------------------|---------------------|
| USD                           | 400    | 200     | 66.78/USD        | 67.10/USD           |
| F/Fr                          | 200    | 80      | 12.31/F.Fr       | 12.45/F.Fr          |
| UK pound                      | 300    | 200     | 91.74/ £         | 91.94/ £            |
| Japanese Yen<br>(for 100 Yen) | 150    | 250     | 61.00            | 61.35               |

Determine the net exposure of each foreign currency in terms of Rupees.

**SECTION - C**

Answer **any three** questions. **Each** question carries **12** marks. **(3x12=36)**

8. Explain the theory of interest rate parity and enumerate the factors that limits its applicability.

9. Describe the various methods of capital budgeting that are normally adopted by MNCs.

10. XYZ Ltd., a US firm will need £ 3,00,000 in 180 days. In this connection, the following information is available.

Spor rate 1 £ = 2 USD  
 180 days forward rate of £ as of today 1 £ = 1.96 USD

Interest rates are as under :

|                         | U.K.  | U.S.A. |
|-------------------------|-------|--------|
| 180 days deposit rate   | 4.50% | 5.00%  |
| 180 days borrowing rate | 5.00% | 5.50%  |





A call option on £ that expires in 180 days has an exercise price of USD 1.97 and a premium of USD 0.04.

The company has forecasted the spot rates 180 days hence as under :

| Future rate | Probability |
|-------------|-------------|
| USD 1.91    | 0.25        |
| USD 1.95    | 0.60        |
| & USD 2.05  | 0.15        |

Which of the following strategies would be most preferable ?

- a) Forward contract
- b) Money market hedge
- c) Option contract
- d) No hedge.

11. IRP Ltd. is the U.K. subsidiary of an Indian IT company. The company's Balance Sheet is thousands of pound sterling (£) for 1-1-2016 is given below :

| Balance Sheet (000 £)   |                  |                   |                  |
|-------------------------|------------------|-------------------|------------------|
| Assets                  |                  | Liabilities       |                  |
| Cash                    | 1,50,000         | Current liability | 90,000           |
| Account receivables     | 3,30,000         | Long term debt    | 2,40,000         |
| Inventory               | 4,80,000         | Capital stock     | 9,30,000         |
| Net plant and machinery | 3,00,000         |                   |                  |
|                         | <b>12,60,000</b> |                   | <b>12,60,000</b> |

- a) Determine IRP's accounting exposure on 1-1-2017 using
  - a) Current rate method
  - b) Monetary and non-monetary method.
- b) Calculate the company's contribution to its parent accounting profit/loss if the exchange rate on 31-12-2016 was 1 £ = Rs. 82.1545.

12. Discuss the features of various international financial instruments.