M.Com (Semester – II) Examination, April 2019

COC211: INTERNATIONAL FINANCIAL MANAGEMENT

Duration: 3 Hours **Max. Marks: 60**

Instructions: 1) This paper consist of **nine** questions carrying **equal** marks.

2) Question No: 1 consist of **5 Compulsory** questions of **2** marks **each.**

3) Answer **any 5** questions from question **2, 3, 4, 5, 6, 7, 8** and **9.**

4) Each question carries **10 marks.** Figure to the right indicate marks.

---

1. Answer the Following : **(5X2 =10)**
   a) Differentiate between International Financial Management And Domestic Financial Management (any 4)
   b) Explain the Concept of Cross rates.
   c) Write a short note on Parallel Loan.
   d) Explain Financial Strategy as a hedging mechanism tool for real operating exposure.
   e) Calculate the 3 month forward rate, if the spot rate is Rs.60/US$; the interest rate in India and the USA is 8% and 6%, respectively.

2. Write a note on Fixed Parity system of exchange rate. What were the factors responsible for its collapse by early 1970's? **10**
3. Explain the Concept of Capital Budgeting and Its Different Methods. **10**
4. Explain different factors that influence the Exchange rate. **10**
5. "Fluctuations in the exchange rate have an influence on the value of those firms that are involved in international transactions."Explain different types of foreign exchange exposures face by the international firms. **10**
6. Currently the spot Exchange rate is \$1.50 /£ and the 6 – month forward exchange rate is \$1.60/£. The interest rate is 8%p.a in the US and 6% p.a. in the UK. **10**
   a) Determine whether the interest rate parity is currently holding.
   b) If IRP is not holding, how would you carry out Covered Interest Arbitrage? Show all the steps and determine the arbitrage profit.
7. A. Calulate the forward premium or Discount for following quotes provided by a leading Indian Bank. **08**

Exchange Rate	Spot	1 month Forward Rate	3 month forward Rtae	6 month Forward rate
Rs./US$	47.65– 47.95	47.70 – 47.86	47.95 – 48.00	48.10 – 48.50
Rs./€	77.95 – 80.00	77.75 – 77.85	78.10 - 78.20	78.15 – 80.30

B. From the following rates determine Rupee per Canadian Dollar exchange rate: **02**

Rs/US$: 47.75 – 47.96 Canadian $ / US$: 1.51 – 1.54

P.T.O

8. Find out the translation loss or gain on the basis of the following data supplied by the Indian Subsidiary to its parent Unit in the USA and also suggest the translation method the parent firm should follow. **10**

(Amt, ₹ million)

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital	2000	Cash	400
Bonds payable	800	Marketable Securities	300
Short term loans	400	Accounts Receivable	500
Accounts payable	600	Inventory (Market Value)	600
Retained Earning	400	Land and Building	1000
		Plant & Machinery	800
		Equipments	600
	4200		4200

Assume that Historic Rate = ₹60/US\$; Current Rate = ₹65/US\$

9. An Indian Importer imports goods worth of US\$ 20000 from America and has to make payment after 90 days. The current Spot Exchange Rate is ₹68/US\$. The forward exchange rate for 90 days is ₹65/US\$. Spot rate on 90th day is ₹66.50/US\$. The annual interest rate in India is 7% and that in America is 8% on borrowing. Whereas as the annual interest rate on investment in India is 6.5% and in the US it is 6%. Determine the following:
   a) What is the Rupee value payable in case the importer does not hedge the exchange rate exposure?
   b) What is the Rupee value payable using Forward Contract to hedge?
   c) Construct an appropriate money market hedge for the Indian Importer. **10**