2019

M. Com.
4^{th} Semester Examination

International Financial Management

PAPER – COM – 402

Full Marks : 50

Time : 2 Hours

Use separate sheet for each Unit

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

UNIT – I

1. Answer any two questions of the following: 5 X 2

a) Explain, in brief, covered interest arbitrage.

b) (i) Forward premiums for the US $ are given below-

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

The spot rate for the US $68.75(bid rate) and 69.15 (offer rate). Find out forward rates for the different months.

(ii) Find Rs/Euro exchange rate if the two exchange rates are- Rs 68.75-69.15/US$ and Euro 0.83-0.84/ US $. 3+2

c) If the rate of exchange is:

US $ 2.0000-2.0100/£ in New York

US $ 1.9800-1.9810/£ in London

Explain how the arbitragers will gain

d) (i) Distinguished between outright forward quote and swap quote.

(ii) Find out the forward rate differential if spot rate US $ in 45.00 and one month forward rate is Rs 45.80 2+3

(Turn over)

2. Answer any one question of the following: 10 X 1

a) (i) Explain the PPP theory. Is it applicable to both short term and long term?

(ii) What is arbitraging? Mention the differences between covered and uncovered interest arbitrage. 5+5

b) (i) What do you mean by Fisher effect? Is it true that the interest rate differential equals inflations rate differential?

(ii) Briefly discuss the any two factors which influence the exchange rate. 3+2+5

UNIT – II

3. Answer any two questions of the following: 5 X 2

a) Write a brief note on ADR.

b) Discuss two risks that the business of a multinational firm is exposed to.

c) Discuss briefly the Floating Rate Notes.

d) A project involved initial investment for $5000000. The net cash inflow during the first, second and third years are expected respectively $3000000, $3500000 and $2000000. At the end of the third year the scrap value is indicated at $1000000. The risk adjusted discount rate is 10%. Calculate the NPV and suggest whether the project will be accepted or not. 4+1

4. Answer any one question of the following: 10 X 1

a) i) Describe ‘netting’ as a hedging technique.

ii) A call option buyer has limited losses but unlimited profits. Justify the statement with the help of a pay-off diagram 5+5

b) (i) The following is the information given by the Indian subsidy to its parent unit in the USA

Liabilities	Rs in millions	Assets	Rs in millions
Share Capital	1000	Land&Building	600
Retained profits	400	Plant & Machinery	800
Bonds	600	Furniture’s	300
Current Liabilities	400	Inventory	300
		Marketable securities	100
		Debtors	200
		Cash	100
Total	**2400**	**Total**	**2400**

Historical rate =Rs65/ US $. Current rate =Rs 68/US $. You are required to determine the translation gain/loss under current rate method.

(ii) Distinguish between transaction exposure and real operating exposure. 7+3

(***Internal Assessment :10 marks***)