

**2023**

**M. Com.**  
**4<sup>th</sup> Semester Examination**  
**INTERNATIONAL FINANCIAL MANAGEMENT**  
**PAPER – COM 402**

*Full Marks: 50*

*Time: 2 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.*

**UNIT – I**

- 1. Answer any two questions:** **2 X 2**
  - a) What is direct and indirect quote?
  - b) What is call option and put option?
  - c) What is 'over-the-counter' market?
  - d) Consider the following bid-ask prices: Rs. 70.00 – Rs. 70.50/US \$. What is the bid-ask price of Rupee?
  
- 2. Answer any two questions:** **2 X 4**
  - a) What factors influence the exchange rate? Find the rate of inflation if nominal and real interest rate is respectively 15% and 5%.
  - b) Explain the PPP Theory? Is it applicable to both short-term and long-term?
  - c) Distinguish between 'Speculating' and 'Arbitraging'.
  - d) Explain 'Covered Interest Arbitrage'.
  
- 3. Answer any one question:** **1 X 8**
  - a) Briefly discuss importance of foreign exchange market in international financial market.
  - b) Explain 'Fixed Exchange Rate' system. What are its advantages?

## UNIT – II

**4. Answer any two questions: 2 X 2**

- a) What is spot market?
- b) An Indian company is planning to invest in US. The US inflation rate is expected to be 3% and that of India is expected to be 8% annually. If spot rate currently is Rs. 45/US \$, what spot rate you expect after 5 years?
- c) Why is a Floating-rate Note?
- d) What do you mean by cost of capital of an international business firm?

**5. Answer any two questions: 2 X 4**

- a) What is hedging? What are its advantages?
- b) A company expects cash flow from its new project to the extent of \$ 5,000, \$ 6,500 and \$ 6,000 respectively during the first three years of its operation. However, due to changes in exchange rate/inflation rate, the cash flow is affected and it will change to \$ 4,000, \$ 5,800 and \$ 5,200. Find the magnitude of the possible real operating exposure during the initial year of operation assuming a discount rate of 10%.
- c) Briefly discuss about 'American Depository Receipt'. How is it different from 'Global Depository Receipt'?
- d) Distinguish between 'Foreign Exchange Risk' and 'Foreign Exchange Exposure'. What are the different types of Foreign Exchange Exposures?

**6. Answer any one question: 1 X 8**

- a) i) Y Ltd has \$ 15,00,000 allocated for capital budgeting purposes. The following proposals and associated profitability indexes have been determined:

Project	Amount	Profitability Index
	\$	
1	4,50,000	1.22
2	2,25,000	0.95
3	5,25,000	1.20
4	6,75,000	1.18
5	3,00,000	1.20
6	6,00,000	1.05

Which of the above investments should be undertaken? Assume that projects are indivisible and there is no alternative use of the money allocated for capital budgeting.

ii) What is foreign exchange risk? (6+2)

- b) Write notes on: (i) Leads and Lags, (ii) Net Present Value method as an international capital budgeting technique.

**(Internal Assessment: 10 marks)**