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M. B. A. (Fourth Semester) Examination, April-May 2021

(New Scheme)

(Management Branch)

(Specialization : Finance Management)

INTERNATIONAL FINANCIAL MANAGEMENT

Time Allowed : Three hours

Maximum Marks : 80

Minimum Pass Marks : 32

Note : *Section-A : Attempt any* ***six****.*

Section-B : Attempt any ***four****. Attempt both sections as per instruction.*

Section-A 6×8=48

Note : *Attempt any* ***six*** *questions. Each question carry equal 8 marks.*

1. "The finance manager of the new century cannot afford to remain ignorant about international markets and instruments and their relevance for treasury functions." Elucidate.

2. Proponents of flexible exchange rates argue that there would be no need for central banks to hold foreign exchange reserves. What could be the explanation to this?

3. Explain the settlement and inter bank trading mechanics related to spot and forward quotation.

4. How to use currency futures in typical corporate hedging situation and for speculation?

5. What are currency options? Explain their types. Use pay off diagrams to analyse options.

6. While currency swap involves exchange of notional principal, interest rate swap involves exchange of interest payments. Explain with examples.

7. Explain how internal hedging strategies like leads, lags, netting and offsetting work to manage foreign exchange explosure.

8. Distinguish between transaction, translation and operating exposure. Explain the methods underlying each.

9. Write short notes on :

(a) Special drawing rights

(b) Price & Quantity effects of exchange rate changes.

(c) International Monetary Fund

Section-B **4×8=32**

Note : Attempt any four questions. Each question carry equal 8 marks.

10. Money and foreign exchange markets in London and New York are very efficient you have the following information :

Spot exchange rate	USD 1·6000 /GBP
One-year forward rate	USD 1·6152 /GBP

One year T-Bill rate in New York 6%.

Expected inflation rate in London is 2%.

What will be T-Bill rate in London and inflation rate in New York? (if parity condition hold)

11. The following spot rates are observed in New York foreign market.

GBP/USD = 1·7540 / 45 & USD/CHF = 1·5700 / 05.

In the London Bank the spot rate is being quoted at GBP/CHF 2·7385 / 2·7390.

What transaction have to be executed to exploit arbitrage.

12. Suppose a firm buys a call option at a strike price of ₹ 60·50 /£ along with a premium of ₹ 0·05 /£. Size GBP 62500.

(a) What will be the gain/loss on option if spot at maturity is ₹ 60·60 /£?

(b) What will be the gain or loss to the option buyer if spot at maturity in ₹ 60·55 /£?

13. On 1st January, a UK company is to receive 5 million USD maturing on 1st May. On 1st January the spot rate in GBP/USD 1·60 and June futures are trading at $ 1·66 per pound.

What is the result of future hedge when on 1st May the spot is $ 1·80 and futures are at $ 1·82? (Contract size 62500 GBP)

14. GBP / USD spot 1·6570 / 75

3-month swap 25 / 15

Calculate the outright forward rate is GBP at forward premium or discount. Explain the quotation thus derived.