Roll No. 27

Third Semester **MBA**

END- SEMESTER EXAMINATION **Nov. -2019**

MGF-05 International Financial Management

Time: 3:00 Hours *Max. Marks: 60*

Note: Answer any five questions. Assume suitable missing data, if any.

1) a) Discuss the evolution of international monetary system?

b) How can Balance of Payments disequilibrium be corrected through the flexible exchange rate system? Also explain what are the advantages of currency pegging? (6+6)

2) a) Explain the concept of Balance of payment? What could be the cause for a current account deficit or surplus? How can a country manage continuous current account deficit?

b) What will be the BOP entries of following transactions?

i) An Indian firm exports goods worth INR 500mn. to a firm in Australia. Australian firm pays from its bank account kept with SBI of Mumbai.
ii) An Indian Firm imports equipment from a firm in US by paying INR 60 mn. US firm deposits that amount in Mumbai branch of American Express Bank.

3) a) Explain the absolute and relative version of Purchasing power parity? In the real world there may be deviations from parity due to many reasons. Explain in brief. Also discuss the implications of the same.

b) What is International Fisher Relation? Following are the Interest rates and spot rates of exchange:

- Spot rate: USD/INR = 39.45/50
- Interest rates in India = 10-10.25%
- Interest rates in US = 7-7.5%

If Interest rate parity holds, what are the forward quotes?

4) a) How is the exchange rate determined by the forces of Demand and supply? "Exchange rate forecasts are used for several purposes" Discuss in brief.

b) "Fundamental analysis involves studying certain macro-economic variables that are more likely to influence exchange rates" In the light of above statement explain in brief any one model.

5) a) Distinguish between Foreign exchange exposure and Foreign Exchange risk? Why do firms need to manage foreign exchange risk?

b) A firm in Mumbai wants to buy an equipment costing USD 5mn. from a company in New York. Indian Firm is permitted to pay the amount in 3 months. Current spot rate of USD/INR is 45. The firm expects the spot rate of US$ to change in 3 months. Spot rate may be USD/INR = 44, 44.5.46, 46.5 or 47. The three month forward rate is USD/INR 46 Interest rate is 6% in India and 4% in US. In the Indian option market the CALL option of US $ with an expiration date coinciding with the 3 month period has an exercise rate of INR 46, Option premium is INR 10,000. The PUT option has also the same value for the same 3 month period.

Calculate the cash flows under each alternative course of action?

6) a) How is NPV of a project different from its APV? Why does NPV differ from the project's perspective to the parent firm's perspective?

b) What is risk in International capital budgeting decision? How is risk handled in International capital budgeting decision?

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