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No. of Printed Pages : 02

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SARDAR PATEL UNIVERSITY

SYBBA[International Business] SEM – IV

Subject : International Financial Management - II

UM04CBBFO2/B02

Date : 18-04-2016 **Time : 10:30 a.m to 12:30 p.m**

Day :Monday **Total Marks : 60**

Q.1(a) Differentiate briefly Forward and Future Market. **[08]**

Q.1(b) Discuss Exchange Control Mechanism and Regulation. **[07]**

OR

Q.1(a) Interest rate in India is 25% and 15% in USA. The spot rate is Rs.65/$. Find out Forward rate in each of the two following cases : **[10]**

i) Forward rate assuming 9 month valuation

ii) Forward rate assuming 12 month valuation.

Q.1(b) The technical forecast ,fundamental forecast and the market-based forecast of rupee vis-à-vis US dollar for the second quarter of 2015 are respectively as follows: **[05]**

Rs.40, Rs.40.6, and Rs.40.2 . If the forecaster assigns 20%, 40% and 40 % weight respectively to above forecast, what would the weighted average of the forecasts, often known as mixed forecast?

Q. 2 Find out the translation loss/gain on the basis of the following data supplied by the Indian subsidiary to its parent unit in USA. **[15]**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Current liabilities	24,000	Current Assets	20,000
Long-term debt	25,000	Inventory	40,000
Share Capital	20,000	Fixed Assets	40,000
Retained Earnings	20,000	Goodwill	10,000
Bonds	21,000		
	1,10,000		**1,10,000**

Historical Rate = Rs. 40/$, After Devaluation = Rs. 45/$, After Revaluation = Rs. 35/$

OR

Q. 2 Do the different methods of translation arrive at different sizes of translation exposure? Explain. How would you manage translation exposure? **[15]**

Q.3 What is Transaction Exposure? Discuss briefly how it emerges and various techniques adopted for managing transaction exposure. **[15]**

OR

Q.3 The Currency market has the following data. Will investor go for a hedge contract? If so then which of the option he will select : **[15]**

a) Spot rate is Rs.60/US$

b) 90-day forward rate is Rs. 59.50/US$

c) Interest rate on borrowing in India and the USA is 6% p.a.

d) Interest rate on deposit or investment is 5% p.a.

e) A 90-day call option is having a strike price of Rs. 59.60 with premium 5% p.a .

f) A 90-day put option is having exercise price of Rs. 59.80 with premium 5% p.a.

g) Spot rate on the 90^{th} day is Rs. 59.80/US$.

- An Indian importer imports goods worth US$ 1 million and has to make payment after 90 days.
- An Indian exporter exports goods worth US$ 1 million, to receive payment after 90 days.

Q.4 What is Economic Exposure with its determinants and various techniques of managing Economic Exposure? **[15]**

OR

Q.4 Supreme Manufacturing XY is the wholly owned Swedish affiliate of US Multinational Industrial Plastic Firm. It manufactures patented sheet plastic in Sweden with 60% output (i.e 1 million units) currently being sold in Sweden and the remaining 40% exported to other European countries at SEK 20 per unit. **[15]**

Supreme uses Local and Foreign sources of raw materials. Total operating and overhead expenditures are SEK 10,800,000 and SEK 3,500,000 respectively.

The effective Swedish Tax Rate on corporate profits is 40% and the annual depreciation charges on Plant and Equipment in Swedish Kroner (SEK) 900,000.

Supreme XY has outstanding SEK 3 million in debt, with interest payable at 10% annually. The current exchange rate is SEK 4 = 1$.

Assume that the Swedish Kroner devaluates by 20%. All cost and prices increases in proportion to the Kronor devaluation, but unit volume remains the same. On the basis of this information, Calculate the economic exposure of Supreme XY.

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