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SARDAR PATEL UNIVERSITY

FOURTH YEAR B.B.A. (Honours) EXAMINATION

SEMESTER VIII (ITM VIII (CBCS)(REGULAR)

THURSDAY, 13TH APRIL-2017

2.00 pm to 4.00 pm

UM08EBBI03 FUNDAMENTALS OF INTERNATIONAL FINANCE-II

Marks: 60

Q-1(a) Write short note on MNC capital budgeting, what are basic issues involve in it? **[08]**

Q-1(b) Write short note on (a) Incorporating Country risk analysis in capital budgeting (b)Parent v/s Project cash flows, Issues involved in foreign investment analysis **[07]**

OR

Q-1 Write short note on:(a) Expropriation(b)Exchange rate change & Inflation (c) Tax treatment of foreign source income, involved in foreign investment analysis **[15]**

Q-2 Discuss the estimation of incremental cash outflows and incremental CFAT for subsidiary company and parent company in case of international capital budgeting decision. **[15]**

OR

Q-2 A US MNC is planning to install a manufacturing unit to produce 500000 units of an automobile component in India. Setting up of the manufacturing plant will involve an investment outlay of Rs 50 million.The plant is expected to have a useful life of 5 years with Rs 10 million salvage value .MNC will follow the straight line method of depreciation. To support the running of business, working capital of Rs 5 million, will have to be invested; variable cost of production and sales will be Rs.20 per unit. Additional fixed cost per annum are estimated at Rs2 million. The fore casted selling price is Rs 70 perunit. The MNC will be subject to 40 percent tax rate in India and its required rate of return is 15 percent. **[15]**

It is forecasted that the rupee will depreciate in relation to US dollar @ 3 percent per annum, with an initial exchange rate of Rs 48/$.Accordingly, the exchange rates for the relevant 5 year period of the project will be as follows:

Year	Exchange rate
0	Rs. 48/$
1	49.44/$
2	50.92/$
3	52.45/$
4	54.02/$
5	55.64/$

Advise the MNC regarding the financial viability of the proposal

Q-3 Give Meaning of Cost of Capital for MNC. Why Cost of capital across countries is different?. **[15]**

OR

Q-3(a) Write Short note on(a) Cost of equity using CAPM(b) Adjusted Present Value Approach **[08]**

Q-3(b) A Japanese MNC has its subsidiary in India. The subsidiary has issued 12 percent preference shares of the face value of Rs100, to be redeemed at year end 8. Flotation costs are expected to be 4 percent; these costs can be amortized for tax purposes during the 8 years a uniform rate. The corporate tax rate is 35 percent. Determine the cost of preference shares from the perspective of the subsidiary. **[07]**

Q-4(a) Discuss the intra-flow of cash in the international scenario. **[10]**

Q-4(b) Why is the management of working capital more complex in the international firm than in a domestic firm? **[05]**

OR

Q-4 Write a note on the following in the context of international firms: **[15]**

a. Steps in management of Cash and Near cash

b Financing of Current Assets

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