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SARDAR PATEL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION EXAMINATION
SEMESTER IV
2009

FM-204: INTERNATIONAL FINANCIAL MANAGEMENT

Date: Saturday, April 11, 2009
Time: 11.00 am TO 2.00 pm

Total Marks: 70

NOTE: [1] Figures to the right indicate full marks of each question.
[2] All questions are compulsory and carry equal marks.

Q1[a] 'Studying international finance is the need of the hour.' Do you agree? [05]

Q1[b] Which of the advantages of centralization of cash management are related to foreign exchange exposure management? [06]

Q1[b] What do you mean by full convertibility of a currency? [0

Q2[a] Discuss various factors that govern the divergence between interest rates in the onshore and offshore markets in a currency. [07]

Q2[b] What were the main objectives of the Bretton Woods system? Also comment on the proposition that the Bretton Woods system was programmed to an eventual demise. [07]

Q3[a] The spot rate for INR/AUD is 29.36 and the three-month forward rate is 29.45. Which currency is appreciating and which is depreciating? Which currency is trading at a discount and which at a premium? Which currency is more expensive? Compute the annual percentage premium or discount? [07]

Q3[b] Classify and cite examples for each foreign exchange exposure. [07]

Q4[a] A forex trader wants to earn arbitrage gain. He receives the following data and quotes from forex and the money market. [07]

Spot rate of US $	:	Rs 48.5/$
6 month forward rate of US $	:	Rs 48.90/$
Annualised interest on US 6 month treasury bill	:	2.5%
Annualised interest on Indian 6 month treasury bill	:	6.0%

What are the transactions the trader will execute to receive arbitrage gain?

Q4[b] A country that persistently runs a current account surplus is living below its means while if it runs a persistent deficit it is living beyond its means – Discuss. [07]

Q5[a] A Thai company is expecting to receive US \$ 5 million from an importer in the US after three months. The current spot exchange rate is Baht 43.75/US \$ and 90-day forward rate is Baht 45.35/US \$. What will be the consequences if the Thai firm (a) does not cover its exposure, (b) covers 60% and keeps 40% exposure uncovered, and (c) covers 100% of its exposure by entering into a forward contract? Suppose the spot exchange rate at the time the Thai company receives payment is Baht 44.10/US \$. What is the cost of the forward contract (partial and full)? [05]

Q5[b] Company ABC and XYZ have been offered the following rates per annum on a Rs. 50 lakh five year loan. [04]

	Fixed rate	Floating rate
Co. ABC	9.0%	Mibor + 0.3%
Co. XYZ	10.8%	Mibor + 0.8%

Co. ABC requires a floating rate loan. Co. XYZ requires a fixed rate loan. (a) How can the two companies enter into a swap arrangement in which each benefit equally? (b) What risk could this arrangement generate?

Q5[c] "Country risk analysis is very important in international financial management." Do you agree? [06]

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