(Following Paper ID and Roll No. to be filled in your Answer Books)

Paper ID : 270410 Roll No. | | | | | | | | | | |

M.B.A.

Theory Examination (Semester-IV) 2015-16

INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours ***Max. Marks : 100***

Section-A

1. Answer the following questions in not more than 30 words each. (2 × 10 = 20)

   (a) What is transaction exposure?

   (b) What is transfer pricing?

   (c) What is international fisher effect?

   (d) What is foreign direct investment?

   (e) What is a Eurobond?

   (f) What is a letter of credit?

(g) What is a foreign sales corporation?

(h) What is gold backed exchange rate system?

(i) What is international factoring?

(j) Differentiate between operating and translation exposure.

Section-B

2. Answer any **five** questions from this section. (10×5=50)

(a) Explain the mechanism that restores the balance-of-payments equilibrium when it is disturbed under the gold standard.

(b) Explain purchasing power parity, both the absolute and relative versions. What causes deviation from purchasing power parity?

(c) In order for a currency derivative market to function, two types of economic agents are needed: hedgers and speculators. Explain.

(d) Differentiate between absolute and relative purchasing power parity theory.

(e) Explain how special drawing rights (SDR) are constructed. Also, discuss the circumstances under which the SDR was created.

(f) Enumerate the factors affecting international equity returns.

(g) Discuss the techniques of managing transaction exposure.

(h) Elaborate the conditions under which the fixed exchange rate system broke down.

Section C

Attempt any Two (15×2=30)

3. Suppose you are a euro-based investor who just sold Microsoft shares that you had bought six months ago. You had invested 10,000 euros to buy Microsoft shares for \$120 per share; the exchange rate was \$1.15 per euro. You sold the stock for \$135 per share and converted the dollar proceeds into euro at the exchange rate of \$1.06 per euro. First, determine the profit from this investment in euro terms. Second, compute the rate of return on your investment in euro terms. How much of the return is due to the exchange rate movement? Also discuss the various techniques of managing transaction exposure.

4. Due to the integrated nature of their capital markets, investors in both the United States and U.K. require the same real interest rate, 2.5 percent, on their lending. There is a consensus in capital markets that the annual inflation rate is likely to be 3.5 percent in the United States and 1.5 percent in the U.K. for the next three years. The spot exchange rate is currently \$1.50/£. Compute the nominal interest rate per annum in both the United States and U.K., assuming that the Fisher effect holds.

5. Company A is an AAA-rated firm desiring to issue five-year FRNs. It finds that it can issue FRNs at six-month LIBOR + .125 percent or at three-month LIBOR +.125 percent. Given its asset structure, three-month LIBOR is the preferred index. Company B is an A-rated firm that also desires to issue five-year FRNs. It finds it can issue at six-month LIBOR + 1.0 percent or at three-month LIBOR + .625 percent. Given its asset structure, six-month LIBOR is the preferred index. Assume a notional principal of \$15,000,000. Determine the QSD and set up a floating- for-floating rate swap where the swap bank receives .125 percent and the two counterparties share the remaining savings equally.