Lib 26/5/17 – II nd

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MBA

THEORY EXAMINATION (SEM–IV) 2016-17

INTERNATIONAL FINANCIAL MANAGEMENT

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

Note : *Be precise in your answer.*

SECTION - A

1 **Answer the following questions in not more than 30 words each.** **(2x10 = 20)**

- a) Briefly explain the concept of multilateral netting
- b) What do you understand by cross listing of shares?
- c) Define Translation exposure.
- d) Explain the concept of syndicated loan.
- e) What do you understand by Balance of Payment?
- f) Explain the concept of Euro Bond.
- g) What do you mean by stockpiling of inventory?
- h) Explain the concept of transfer price.
- i) What do you mean by withholding tax?
- j) Explain the concept of letter of credit.

SECTION - B

2 **Answer any five questions of the following in 350 words each:** **(10x5 = 50)**

- a) Distinguish between 'Foreign direct investments' (FDI) and 'Portfolio Investment' and discuss the different strategies of portfolio investment
- b) What do you understand by foreign exchange risk? What are the different external exposure management techniques which are used by importers and exporters?
- c) Explain the concept of Balance of Payments (BOP) and discuss the different accounts of BOP. Can a country run a current account deficit (surplus) indefinitely? Give reasons.
- d) What is portfolio investment? What factors drive investors to go in for portfolio investment?
- e) Explain with the help of an imaginary illustration, how capital budgeting decisions of any MNC may be different from domestic firms.
- f) Minimization of global tax liability is not the only objective of transfer pricing. Discuss.
- g) Explain the need for the advantages of centralized cash management for a company which is involved in international business.
- h) An export company wants to raise capital from international markets. What are the basic considerations the firm should take into account while making this international financing decision? Explain

SECTION – C

Read the following case and answer questions given at the end.

Case: BMW Group:

BMW Group, owner of the BMW, Mini and Rolls-Royce brands, has been based in Munich since its founding in 1916. But by 2011, only 17 per cent of the cars it sold were bought in Germany. In 2011, China had become BMW's fastest-growing market, accounting for 14 per cent of BMW's global sales volume in 2011. India, Russia and eastern Europe had also become key markets. Despite rising sales revenues, BMW was conscious that its profits were often severely eroded by changes in exchange rates. The company's own calculations in its annual reports suggested that the negative effect of exchange rates totalled €2.4bn between 2005 and 2009.

BMW did not want to pass on its exchange rate costs to consumers through price increases. Its rival Porsche had done this at the end of the 1980s in the US and sales had plunged. A review of the competitor moves in such a case revealed the use of natural hedges by establishing factories in the markets where it sold its products, making more purchases denominated in the currencies of its main markets and developing ways to spend money in the same currency as where sales were taking place as the most viable option. Formal financial hedging by setting up regional treasury centres in the US, the UK and Singapore could have been another option

BMW shifted its production facilities for cars and components in 13 countries. In 2000, its overseas production volume accounted for 20 per cent of the total. By 2011, it had risen to 44 per cent. A joint venture with Brilliance China Automotive was set up in Shenyang, China, where half the BMW cars for sale in the country were manufactured. The carmaker also set up a local office to help its group purchasing department to select competitive suppliers in China. At the end of 2010, BMW announced it would invest 1.8bn rupees in its production plant in Chennai, India, and increase production capacity in India from 6,000 to 10,000 units. It also announced plans to increase production in Kaliningrad, Russia.

Answer any two of the following questions: **(15x2 = 30)**

3. What was the challenge being faced by BMW Group?

4. Do you think that passing on exchange rate costs to consumers through price increases as done by rival firm Porsche, would have been a good option for BMW Group? Give reasons in support of your answer.

5. What could have been the strategies adopted by the company for managing its foreign exchange exposure. Discuss their impacts