1104E0077

Candidate's Seat No :__________

PGDIFA (Sem.-2) Examination

Paper-7

International Financial Management

Time : 2-30 Hours] **April 2019** **[Max. Marks : 70**

Q.1 (A) **Answer the following (Any Two)** 10

1. Define GATT. Explain the fundamental principles of it.
2. "Role of Finance manager is much wider in international context"- Explain.
3. Highlight the position of Indian Economy in global context.

Q.1 (B) **Answer the following (Any Two)** 6

1. Describe the Functions of GATT
2. Write a short note on – WTO
3. Write a short note on – Global Interdependence

Q.2 (A) **Answer the following (Any Two)** 10

1. Explain the following terms –Specie Commodity Standard, Gold Standard, Currency Board, Horizontal Bands
2. Define BoP. Explain Current Account and Capital Account in BoP.
3. What is an exchange rate regime? Explain any four regimes post 1973.

Q.2 (B) **Answer the following (Any Two)** 6

1. Write short note on Bretton Woods System
2. Write short note on European Monetary System
3. Define Autonomous Transaction and Compensatory Transaction with example.

Q.3 (A) **Answer the following (Any Two)** 10

1. Define ForEx exposure. Explain types of ForEx exposure.
2. In London a dealer quotes:
   GBP/CHF Spot: 3.5250/55
   GBP/JPY Spot: 180.80/181.30
   (a) What do you expect the CHF/JPY rate to be in Geneva?
   (b) Suppose that in Geneva you get a quote CHF/JPY Spot 51.1530/51.2550, is there an arbitrage opportunity? How much profit a dealer with CHF 1 million in Geneva can make through arbitrage?
3. X Ltd, an Indian company, has purchased 5 drilling machines worth CHF 20000 per machine from its Swizz supplier on 1st February, 2019. Payment in CHF is due on 30th May, 2019. The company faces transaction exposure hence it enters into the forward contract with ICICI Bank. Pass necessary journal entries in the books of X Ltd assuming that its financial year ends on 31/03/2019. Following exchange rates are available.
   1st February 2017: CHF 1 = INR 38
   31st March 2017: CHF 1 = INR 41
   30th May 2017: CHF 1 = INR 39
   Forward Rate: CHF 1 = INR 38.75

Q.3 (B) **Answer the following (Any Two)** 6

1. Explain hedging techniques for economic exposure.
2. Describe Fisher Effect along with formula.
3. Complete the following table based on information provided.

Exchange Rate	Bid Rate	Ask rate
GBP/EUR	1.3255	1.3260
GBP/JPY	175.00	176.50
EUR / JPY	?	?
USD/EUR	0.8575	0.8585
JPY / USD	?	?
GBP / USD	?	?

Q.4 (A) **Answer the following (Any Two)** 12

1. M&A Ltd is considering the proposal to acquire R&D Ltd which increases the market share. Following table will summarize the cash flows for M&A Ltd and merged firm respectively. The normal growth rate is expected to be 10% after 3 years.

[P.T.O................................

Year	M&A Ltd (Rs.)	Merged Firm (Rs.)
1	4500000	5750000
2	5107500	7331300
3	5797000	9347300

The required rate of return for the firms that have similar risk-return characteristics is 13.75%. M&A Ltd has 20 lakhs shares outstanding and R&D Ltd has 15 lakh shares outstanding. The exchange ratio is 3 shares of merged company for every 4 shares of R&D Ltd. Calculate the value created by merger to the M&A Ltd. Advise the company whether to go for it or not.

2. Reliance Ltd is analyzing a project proposed by its US based subsidiary. The initial cost of the project is USD 2,00,000. A sum of Rs. 60 lakhs of initial investment are done by Indian parent and the remaining USD 50,000 will be borrowed in USA. The loan will be repaid in 2 annual installments amounting USD 30,000; USD 25,000. The expected life of the project is 2 years and the net operating cash flow from the project will be USD 80,000; USD 100,000 in the first and second year.

   The spot exchange rate is Rs. 40/USD. It is assumed that PPP holds with no lag and real prices remain constant in both absolute and relative terms. Prices are increasing @ 8% in India and @5% in USA. As per income tax laws, depreciation allowance is Rs. 25 lakhs per year for 2 years. Expected Tax savings from transfer pricing is Rs. 20,000 per year in all years. Tax rate in India and USA are 30% and 25% respectively. Following Discount Rates are applicable.

Particulars	Discount Rate
Operating Cashflow and Loan Repayment	20%
Tax savings on Depreciation and Interest deduction on increased borrowing capacity	12%
Tax Savings on Transfer Price	25%

   Calculate the APV and advise the company whether to accept the proposal or not.

3. "International investment is a two-edged sword." Explain the statement in the light of pros and cons of investing in international equity market.

Q.4 (B) **Answer the following (Any Two)** 10

1. Describe the types of bond sold in international market.
2. A bank sells a "three against six" USD 3,00,000 FRA to cover the interest rate risk caused by the maturity mismatch. The agreement rate with the buyer is 5.5% and the settlement rate after 3-months from today is 4.25%. There are 92 days in the three-month period. Determine the payment to be made under FRA and who will pay to whom?
3. **Define the following terms**
   a. Eurocurrency
   b. Euro Credit
   c. Euro Notes
   d. Euro Commercial Paper
   e. Forward Rate Agreement

X-X-X-X-X-X-X-X-X-X-X-X-X-X-X-X-X-X-X-X