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2001E1221

Candidate's Seat No : _____

MBA-2 Sem.-3 & 5 Examination

Finance

IF

Time : 2-30 Hours]

January-2025

[Max. Marks : 70

Q.1) (A) Write a note on Evolution of International financial management. (7)

Q.1) (B) Write a note on Interest Rate Parity Theory.. (7)

Q.2)

(A) (7)

On April 3, 2016, a Bank quotes the following:

Spot exchange Rate (US \$ 1)	INR 66.2525	INR 67.5945
2 months' swap points	80	100
3 months' swap points	170	196

In a spot transaction, delivery is made after two days.

Assume spot date as April 5, 2016.

Assume 1 swap point = 0.0001

You are required to:

- (i) Ascertain swap points for 2 months and 15 days. (For June 20, 2016)
- (ii) Determine foreign exchange rate for June 20, 2016, and
- (iii) Compute the annual rate of premium/discount of US\$ on INR, on an average rate.

Q.2 (B) Write a note on Forward and Futures in Forex with differentiations. (7)

OR

Q.2 (A) (7)

On 1 October 2015 Mr. X an exporter enters into a forward contract with a BNP Bank to sell US\$ 1,00,000 on 31 December 2015 at INR 65.40/\$. However, due to the request of the importer, Mr. X received amount on 28 November 2015. Mr. X requested the bank the take delivery of the remittance on 30 November 2015 i.e. before due date. The inter-banking rates on 28 November 2015 was as follows:

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Spot INR 65.22/65.27

One Month Premium 10/15

If bank agrees to take early delivery then what will be net inflow to Mr. X assuming that the prevailing prime lending rate is 18%.

Note: Rates to be rounded off to 4 decimals in multiples of 0.0025.

Q.2 (B) Explain following

(7)

- (i) PIPs
- (ii) Spread
- (iii) Interbank and Merchant bank rates
- (iv) Automatic cancellation of forward contract
- (v) FEDAI

Q.3 (A)

(7)

XYZ Ltd. a US firm will need £ 3,00,000 in 180 days. In this connection, the following information is available:

Spot rate 1 £ = \$ 2.00

180 days forward rate of £ as of today = \$1.96

A call option on £ that expires in 180 days has an exercise price of \$ 1.97 and a premium of \$ 0.04.

XYZ Ltd. has forecasted the spot rates 180 days hence as below:

Future rate	Probability
\$ 1.91	35%
\$ 1.95	40%
\$ 2.05	25%

Which of the following strategies would be most preferable to XYZ Ltd.?

- (i) A forward contract;
- (ii) An option contract;
- (iii) No hedging.

Q.3 (B) Write a note on Types of Bonds and International Bond Market.

(7)

OR

Q.3 (A)

(6)

EFD Ltd. is an export business house. The company prepares invoice in customers' currency. Its debtors of US\$. 10,000,000 is due on April 1, 2015.

Market information as at January 1, 2015 is:

Exchange rates US\$/INR		Currency Futures US\$/INR	
Spot	0.016667	Contract size: 24,816,975	
1-month forward	0.016529	1-month	0.016519
3-months forward	0.016129	3-month	0.016118
	Initial Margin	Interest rates in India	
1-Month	Rs. 18,000	6.5%	
3-Months	Rs. 25,000	7%	

On April 1, 2015 the spot rate US\$/INR is 0.016136 and currency future rate is 0.016134.

Which of the following methods would be most advantageous to EFD Ltd?

- I. Using forward contract
- II. Using currency futures
- III. Not hedging the currency risk

Q3. (B)

(4)

XYZ, an Indian firm, will need to pay JAPANESE YEN (JY) 5,00,000 on 30th June. In order to hedge the risk involved in foreign currency transaction, the firm is considering two alternative methods i.e. forward market cover and currency option contract.

On 1st April, following quotations (JY/INR) are made available:

Spot	3 months forward
1.9516/1.9711.	1.9726./1.9923

The prices for forex currency option on purchase are as follows:

Strike Price JY 2.125

Call option (June) JY 0.047

Put option (June) JY 0.098

For excess or balance of JY covered, the firm would use forward rate as future spot rate. You are required to recommend cheaper hedging alternative for XYZ.

Q.3 (C)

(4)

Your forex dealer had entered into a cross currency deal and had sold US \$ 10,00,000 against EURO at US \$ 1 = EURO 1.4400 for spot delivery.

However, later during the day, the market became volatile and the dealer in compliance with his management's guidelines had to square – up the position when the quotations were:

Spot US \$ 1	INR 31.4300/4500
1 month margin	25/20
2 months margin	45/35
Spot US \$ 1	EURO 1.4400/4450
1 month forward	1.4425/4490
2 months forward	1.4460/4530

What will be the gain or loss in the transaction?

Q.4) (A)

(7)

M/s Omega Electronics Ltd. exports air conditioners to Germany by importing all the components from Singapore.

The company is exporting 2,500 units at a price of Euro 400 per unit. The cost of imported components is S\$ 800 per unit. The fixed cost and other variables cost per unit are Rs.1,000 and Rs.1,500 respectively. The cash flows in Foreign currencies are due in six months. The

current exchange rates are as follows

Rs./Euro 52.50/55

Rs./S\$ 26.20/25

After six months the exchange rates turn out as follows:

Rs./Euro 52.00/05

Rs./S\$ 27.70/75

You are required to calculate loss/gain due to transaction exposure. Based on the following additional information calculate the loss/gain due to transaction and operating exposure if the contracted price of air conditioners is ` 25,000

- (i) the current exchange rate changes to Rs./Euro 52.75/80 Rs./S\$ 26.10/15
- (ii) Price elasticity of demand is estimated to be 1.5
- (iii) Payments and receipts are to be settled at the end of six months.

Q.4 (B) Write a note on Internal Hedging Technique.

(7)

OR

Q.4 (A)

Name out Internal and External Hedging techniques.

(7)

Q.4 (B)

(7)

A Inc. and B Inc. intend to borrow \$200,000 and ¥200,000 in ¥ respectively for a time horizon of one year. The prevalent interest rates are as follows: Company ¥ Loan \$ Loan A Inc 5% 9% B Inc 8% 10% The prevalent exchange rate is \$1 = ¥120. They entered in a currency swap under which it is agreed that B Inc will pay A Inc @ 1% over the ¥ Loan interest rate which the later will have to pay as a result of the agreed currency swap whereas A Inc will reimburse interest to B Inc only to the extent of 9%. Keeping the exchange rate invariant, quantify the opportunity gain or loss component of the ultimate outcome, resulting from the designed currency swap.

(14)

Q.5) Write note on following (Any 3)

- (i) International Banking & Monetary market
- (ii) International Sources of finance
- (iii) Types of Letter of Credit (Name only)
- (IV) FDI & Cross border Mergers