11/5/2019

[This question paper contains 7 printed pages.]

Your Roll No..............

Sr. No. of Question Paper	:	**2868**
Unique Paper Code	:	61017924
Name of the Paper	:	International Finance
Name of the Course	:	**Bachelor of Management Studies (BMS), 2019 (CBCS)**
Semester	:	VI
Duration	:	3 Hours
Maximum Marks	:	75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Answer any **five** questions.
3. Marks are indicated against the question.

1. Briefly explain **any five** of the followings : (5×3=15)

   (a) Heckscher-Ohlin model of International trade

   (b) Special Drawing Rights (SDR)

   (c) Current Account Deficit

(d) Bill buying rate

(e) ADR

(f) Euro Bond

2. (a) An Indian importer has three months payable of USD 120,000. The USD/INR spot and forward rates available today in the market are as follows :

Spot: 69.4080/90

1mf: 10/14

2mf: 15/20

3mf: 25/30

6mf: 13/10

The prevailing interest rates are as follows :

USD: 3% – 3.5%

INR: 7% – 8%

If you are expecting USD/INR Spot after 3 months 69.6510/20 then suggest rational strategy to the importers among the following :

(i) No hedging and Forward hedging

(ii) Money market hedging (5+5=10)

(b) The following exchange rates and one year interest rates exist.

	Bid rate	Ask rate
Euro spot rate	\$1.12	\$1.14
Euro one year forward rate	\$1.16	\$1.18
	Deposit rate	loan rate
Interest rate on US\$	4.0% p.a.	6.0% p.a.
Interest rate on euro	3.5% p.a.	4.5% p.a.

You have \$1,00,000 to invest for one year. Would you benefit from engaging in covered interest arbitrage? (5)

(c) What are the factors responsible for country risk? How to manage them? Explain. (5)

The Exchange rate of R$/INR was 17.00 in the beginning of year which changed to 18.00 by the end of the year. The realization value of inventory was expected to be R$ 350.

(b) Briefly explain the methods of managing Economic Exposure. (5)

6. (a) You have the following information from the money market and foreign exchange markets of USA and UK (5)

	USA	UK
Spot exchange rate	GBP 0.825/USD	
Interest rate (annualized)	Unknown	6.00%
Expected inflation rate	5%	2.00%

Both the markets are very efficient and the parity conditions hold true (Both PPP and IRP).

(i) Estimate interest rate in USA next year.

(ii) Estimate one year GBP/USD forward exchange rate assuming IRP holds.

(b) Briefly explain Swap-in and Forward–forward – in. (5)

3. (a) The quotations available in the market are as follows :

USD/INR = 69.1750/60

GBP/USD = 1.3290/96

EUR/USD = 1.1320/26

EUR/INR = 78.4550/60

GBP/INR = 91.4230/40

Calculate all possible (at least two) arbitrage opportunities. (5+5=10)

(b) What are the issues and challenges in international asset allocation? Explain. (5)

4. (a) Show the possible netting in the followings case : (5)

Argentina to Bharat: $250m; Argentina to China: $50m

Argentina to Denmark: $250m; Bharat to Argentina: $300m

Bharat to China: $150m; Bharat to Denmark: $300m

China to Argentina: \$270m; China to Bharat: \$230m

China to Denmark: \$400m; Denmark to Argentina: \$600m

Denmark to Bharat: \$500m; Denmark to China: \$300m

(b) A portfolio manager is considering the benefits of increasing his diversification by investing overseas. He can purchase shares in individual country funds with the following characteristics :

	India (%)	UK (%)	Spain (%)
Expected return	15	12	5
Standard deviation of return	10	9	4
Correlation with India	1.0	0.33	0.06

What is the expected return and standard deviation of return of a portfolio with 25 percent invested in the United Kingdom, 25 percent in Spain and 50 percent in the India? (5)

(c) Explain Adjusted Present Value method for International Project appraisal? (5)

5. (a) Smart India Public Ltd has its wholly owned subsidiary operating in Brazil where it maintains its account in Brazilian Real (R\$). At the end of the financial year 2018-19 the balance sheet and income statement presented in R\$ are as follows. Translate the balance sheet and Income statement in Indian Rupee using Temporal and Current Rate method. (5+5=10)

Balance Sheet (R\$ million)

Cash	200
Inventory	300
Net Fixed Assets	3500
Total Assets	**4000**
Current liabilities	400
Long-term liabilities	1150
Common Stock	2100
Retained Earnings	350
Total Liabilities & Equities	**4000**

Income Statement (R\$ million)

Sales	3000
COGS	1900
Depreciation	600
Net Operating Income	500
Income Tax (30%)	150
PAT	350
Foreign Exchange gain & losses	
Net income	350
Dividend	0
Addition to Retained Earnings	350