

19/5/22 (17)

[This question paper contains 4 printed pages.]

Your Roll No. 19020590021

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Unique Paper code : 61017924  
Name of the Paper : International Finance  
Name of the Course : Bachelor of Management Studies (BMS),  
2022 LOCF  
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. Attempt Any Five questions.
3. Please attempt all the parts of question together.

Q.1(I). The following exchange rates and one year interest rates exist. You have \$1,00,000 to invest for one year. Would you benefit from engaging in covered interest arbitrage? (5marks)

	Bid rate	Ask rate
Value of British Pound in USD	\$1.60	\$1.64
One year forward rate of Malaysian Ringgit (MYR) in USD	\$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.

- (II). The Brazilian real is quoted at BR0.9955-1.0076/US\$ and the Thai Bhat is quoted at TB25.2513-3986. What is the indirect quote for the BR in Bangkok? (5marks)
- (III). The experience of fixed exchange rate systems have not been entirely satisfactory. What lessons can economists draw from the breakdown of the Bretton woods system? (5marks)

Q.2(I). A forex trader sees the following quotations that are available in the market: (5marks)

EUR/USD = 1.10/1.20

USD/INR = 75.20/30

INR/JPY = 1.40/1.50

EUR/INR = 89.80/90

USD/JPY = 108.80/90

P.T.O.

Calculate at least one arbitrage opportunities which the trader can benefit from.

- (II). ZYLO Corp. has receivable of BP 2,00,000 in 180 days from now. Assume that there is a Put Option available with an exercise price of \$1.75, and option premium of \$0.05 per unit. ZYLO Corp. forecasts the future spot rate in 180 days as follow with probabilities.

Exchange rate	\$1.62	\$1.75	\$1.85
Probability	35%	25%	40%

How much U.S. dollars the firm will receive if it goes for option hedge? (5marks)

- (III). If the current account is running in deficit, what are the consequences for the country economy? Explain with some suitable example of any country?(5marks)

Q.3(I). ABC Corp. will receive BP 2,00,000 in 180 days. The other information is given as:

Spot rate of BP as of today: \$1.65

180 days forward rate of BP as of today: \$1.72

Interest rates are given as:

180 days deposit rates: UK= 4.5%, U.S.=4.5%

180 days borrowing rates: UK=5.0%, U.S.5.0%

How much U.S. dollars will the firm have if it goes for money market hedge? (5marks)

- (II). Spot rate: \$/BP: 1.25-35, the 120 days swap points: 30-20, Given this what will be 120 days percentage spread? (5marks)

- (III). What are the basic reasons for the existence of the Eurodollar market? What factors have accounted for its growth over time?(5marks)

Q.4(I). Translate the balance sheet and income statement in INR using Monetary/Non-Monetary, Current and Non Current Method. (5 + 5 = 10 Marks)

**Balance Sheet (USD million)**

Cash	225
Inventory	325
Net Fixed Assets	3450
<b>Total Assets</b>	<b>4000</b>
Current Liabilities	425
Long Term Debt	1085
Common Stock	2000
Retained Earnings	490
<b>Total Liabilities and Equities</b>	<b>4000</b>

**Income Statement (USD million)**

Sales	3400
COGS	2050
Depreciation	650
Net Operating Income	700
Income Tax (30%)	210

PAT	490
Foreign Exchange Gain or Loss	
Net Income	490
Dividend	0
Addition to retained earnings	490

The exchange rate of USD/INR was 69.75 in the beginning of the year which changed to 70.75 by the end of the year. The realization value of inventory was expected to be USD 350 million.

- (II). What characteristics of foreign securities lead to diversification benefits for the investors? What asset allocation will you suggest to an international investor?(5marks)

Q.5(I). The payables and receivables of four foreign subsidiaries of XYZ bank are given as (in US\$, million):

Dutch subsidiary payables: 15 to Swedish, 14 to Belgian, 18 to French

Swedish subsidiary payables: 12 to Dutch, 16 to French, 13 to Belgian

Belgian subsidiary payables: 14 to Swedish, 19 to French, 12 to Dutch

French subsidiary payables: 18 to Dutch, 12 to Belgian

How much will be the total payments and receipts if they follow multilateral netting process?(5marks)

- (II). What is the expected return and standard deviation from a portfolio of developed markets securities having 30% invested in France, 40% in Germany, 30% in UK?(5marks)

	France (%)	Germany (%)	UK (%)
Expected return	8	13	9
Std. Deviation	4	7	5

Correlations Matrix

	France	Germany	UK
France	1	0.6	0.7
Germany		1	0.5
UK			1

- (III). What makes the APV capital Budgeting framework useful for analysing foreign capital expenditure? (5marks)

Q.6(I). Suppose Suzlon Corp. receives the quotes of \$ 0.0065-75 for the Yen and \$0.025-45 for the Taiwan dollar (NT\$). Given this, how many U.S. dollars will Suzlon Corp. receive from the sale of Yen 50 million? What is the U.S. dollar cost to Suzlon Corp. of buying Yen 1 billion? How many NT\$ will Suzlon Corp. receive for US \$ 500,000? How many yen will Suzlon Corp. receive for NT\$ 200 million? (5marks)

- (II). Are multinational firms riskier than purely domestic firms? What factors would you consider which are critical for a multinational firm?(5marks)

- (III). What is meant by the globalization of financial markets? Explain with some example of international investment instruments? (5marks)

Q.7. Write a short note on any five: (15marks)

- i. SDR
- ii. Political Risk of country
- iii. International trade financing
- iv. ADR
- v. Gold Exchange Standard
- vi. Foreign bonds
- vii. Currency Swap
- viii. Crypto currency