Set B (OBE)

Unique paper code   : **61017924**
Name of the Paper   : International Finance
Name of the Course   : BMS
Semester   : VI
Duration   : 2 Hours
Maximum Marks   : 75

Instructions for the Candidates

Attempt **Any FOUR** questions. All the questions carry **equal marks**. Note your assumptions explicitly (if any).

Q.1. How does purchasing power theory help in forecasting the exchange rate between two currencies? Explain with example. The EUR/USD spot rate is 1.20/25, while the 90 days Euro forward rate is 16/12. The annual deposit interest rates on USD and EUR are 4.0% and 6.0% respectively. Whereas the annual lending interest rates on USD and EUR are 4.5% and 6.5% respectively. You have $100,000 for investment for 90 days. What will be your benefit/loss from engaging in covered interest arbitrage? Would your benefit/loss of arbitrage be different if the 90 days EUR forward rates are 12/16?

Q.2. CleanCars Inc. has particular interest in revolutionizing the automobile industry with electric vehicles, hydrogen powered cars and self-driving technology. It is looking to setup production facility in India. What country level or political risk factors should they consider before making this decision? If they decide to start Indian production, then after 5 year which country will be more suitable of their expansion exercise and why? Clearly mention your all the assumptions used for decision.

Q3. What are the issues and challenges MNCs have during developing their global remittance policy? Suggest the ways and means for smooth and cost-effective global remittance practices.
The payables and receivables of four foreign subsidiaries of Millennium Inc. are given as (in US$, million): Mumbai subsidiary payables: 15 to London, 14 to New York, 18 to Tokyo; London subsidiary payables: 12 to Mumbai, 16 to Tokyo, 13 to New York; New York subsidiary payables: 14 to London, 19 to Tokyo, 12 to Mumbai; Tokyo subsidiary payables: 18 to Mumbai, 12 to New York. How much will be the Net payments and receipts if they follow multilateral netting process?

Q.4. FinPay, an Indian FinTech start-up, is looking to significantly scale up its operations tomake use of the opportunities in digital payments industry that have emerged recently. It needs financial investment to setup required technological and software infrastructure as well as to cover the initial marketing and operation expenses. The promoters have been eyeing investment from global markets by issue of appropriate debt and equity market instruments. You are required to help them in this decision by suggesting relevant sources for long-term financing.
A portfolio manager is considering the benefits of increasing his diversification byinvesting overseas. He can purchase shares in following individual country funds:

	India (%)	Brazil (%)	USA (%)

Expected return	15	12	5
Standard deviation of return	10	9	4
Correlation with India	1.0	0.33	0.70
Correlation between Brazil and USA	0.45		

What is the expected return and standard deviation of return of a portfolio with 25percent investment in Brazil, 25 percent in USA and the remaining in India?

Q5. Mera Export Ltd (MEL) will receive EUR1m in next 60 days for its exports. Which hedging techniques should MELuse out of (1) Forward Market Hedge (2) Money Market hedge (3)Option hedge (4) No hedge, if the Spot rate of EUR as on date is $1.15 andthe60 days forward rate is $1.35. The prevailing interest rates in the two currencies are as follows:

	EUR	USD
60 days deposit rate	5%	4%
60days borrowing rate	5.5%	4.5%

A Put option on EUR that expires in 60 days has an exercise price of $1.35 and a premium of $0.02/EUR. MELforecasts the future spot rate in 60 days with the probabilities are as follow: $1.30 (25% probability), $1.33 (45% probability), $1.37 (30% probability).

Q.6. There is a paradigm shift in inventory procurement and its management by any MNC. Discuss at least three modern practices followed by MNCs which have put them in advantageous positions with respect to inventory management. Mention the real-life example for all.