



**IV Semester M.Com. (Financial Accounting)/M.F.A.
Examination, June 2016
(CBCS Scheme)**

Paper – 4.3 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 70

Instruction : Answer all Sections.

SECTION – A

Answer **any seven** sub-questions out of ten. **Each** sub-question carries **two** marks. **(7x2=14)**

1. a) What do you mean by Euro equity ?
- b) Explain country risk analysis.
- c) What is meant by leading and lagging strategy ?
- d) What is meant by transfer price ?
- e) Explain economic exposure.
- f) What is meant by netting ?
- g) Define Associated Enterprise.
- h) Define pecking order of financing.
- i) What is meant by money market hedge ?
- j) What are blocked funds ?

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks. **(4x5=20)**

2. You are given that the risk-free rate of return in India is 10%. An American investor decides to buy Indian securities with beta = 1.50 and variance of return = 20%. The Indian rupee has been depreciating at 5% against the dollar with variance of 15%. If the market portfolio fetches a return of 20% in India and correlation between the return on security and exchange rate is 0.20, estimate the expected return and risk for US investor.
3. Elucidate the various techniques to optimise cash inflows.

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4. Discuss the economic factors that should be considered when assessing country risk.
5. Explain in brief the methods of computation of Arm's length price.
6. A German subsidiary of an US based MNC has to mobilise working capital for the next 12 months. It has the following options :

Loan from German bank	:	6%
Loan from US parent	:	5%
Loan from Swiss bank	:	2%

Banks in Germany charge an additional 0.5% towards loan servicing. Loan from outside Germany attract withholding tax at 10% on interest paid. If the interest rates given above are market determined, examine which loan is most attractive.
7. A foreign project requires \$ 40,000, which is raised from equity and debt. \$ 10,000 is raised by equity and remaining by loan at an interest rate of 12%. Project has beta of 0.80, the risk free return is 10% and the required return on the market is estimated at 15%. Calculate overall cost for the project.

SECTION – C

Answer **any three** questions out of five. **Each** question carries **twelve** marks. **(3x12=36)**

8. Discuss transaction exposure and enumerate techniques to hedge transaction exposure.
9. A Swiss multinational has subsidiaries in Switzerland, UK and Singapore. The following cash flows are involved among the subsidiaries and Headquarters.

From	To	Amount
Swiss subsidiary	US parent	SFr 320,000
Swiss subsidiary	UK subsidiary	SFr 32,000
UK subsidiary	Swiss subsidiary	£ 27,390
UK subsidiary	US parent	£ 57,878
Singapore subsidiary	Swiss subsidiary	S\$ 534,000
Singapore subsidiary	UK subsidiary	S\$ 164,400
US parent	Singapore subsidiary	\$ 150,000



The exchange rates are currently :

£ 1 = \$ 1.64

\$ 1 = S\$ 1.68

\$ 1 = SFr 1.45

Explain how the company can use centralised cash management.

- 10. Explain important factors that need to be assessed from income tax point of view while entering into foreign collaboration agreement .
- 11. After tax lending and borrowing rates for three units of ABC Ltd. located in US, France, and Germany are :

	Lending (%)	Borrowing (%)
United States	3.4	4.2
France	3.2	4.5
Germany	3.6	4.7

Currently, the French and German units owe \$ 2 million and \$ 3 million, respectively to their US parent. The German unit also has \$ 1 million in payable outstanding to its French affiliate. The timing of these payments can be changed by up to 90 days in either direction. Assume that ABC Ltd. is borrowing funds while both the French and German Subsidiaries have excess cash available.

- a) What should be ABC Ltd.'s optimal leading and lagging strategy ?
 - b) What is the net profit impact of these adjustments ?
12. Write a short note on the following :
- a) International project finance
 - b) Multinational Capital Budgeting
 - c) International financial market and instruments.



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IV Semester M.F.A. Degree Examination, June 2015
(Semester Scheme)

FINANCE AND ACCOUNTS

Paper – 4.3 : International Financial Management

Time : 3 Hours

Max. Marks : 80

SECTION – A (10×2=20)

Note : Answer any ten of the following sub-questions in about 3-4 lines each. Each sub-question carries two marks.

1. a) Identify the components of International financial system.
- b) What is spread ?
- c) Define arbitrage.
- d) What is strike price ?
- e) Mention the types of country risk assessment.
- f) State four important features of Euro currency market.
- g) State the major external techniques used in managing foreign exchange risk.
- h) Define cost of debt in international market.
- i) What are the goals of Global Financial Systems ?
- j) Define International fisher effect.
- k) What is meant by project risk ?
- l) State the participants in foreign exchange market.

SECTION – B (3×5=15)

Note : Answer any three questions in about one page each. Each question carries five marks.

2. Write a note on exchange rate system in India.
3. Write a note on Foreign Currency Bonds.

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4. Briefly explain the management of receivables in multinationals.
5. What are the different methods used to study political risk? Explain any one of these methods.
6. From the following details, calculate the arbitrage possibilities.
 - Spot rate ₹ 35.0020 = \$
 - 6 months forward rate ₹ 35.9010 = \$
 - Annualized interest rate on 6 month rupee : 12%
 - Annualized interest rate on 6 month dollar : 7%

SECTION – C (2x15=30)

Note : Answer any two questions. Each question carries 15 marks.

7. "Instead of total cash flows, incremental cash flows should be the basis for evaluating foreign capital budgeting projects". Do you agree? Why?
8. Enunciate the Theory of Interest Rate Parity and enumerate the factors that limit its applicability.
9. "Economic exposure implies the change in the value of a firm due to unanticipated change in exchange rates". Examine the statement.
10. Bharath International, an Indian based multinational company, is evaluating an abroad investment proposal. It has expanding its activities to such an extent that it is now considering a project to build a plant in USA. Project cost is \$ 50 million and it is expected to generate cash flow for four years as follows :

Year :	1	2	3	4
Cash flows (\$ millions) :	20	30	20	10

Current spot exchange rate is ₹ 60/\$. Risk free rate in India is 10% and in USA, it is 6%. Bharath International's required rate of return on this project is 20%. From the above information, you are required to evaluate project by using

- a) Home Currency Approach and
- b) Foreign Currency Approach.



IV Semester M.F.A. Degree Examination, June 2015
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SECTION - D**(1×15=15)****11. Case Study (compulsory) :**

An Indian company is planning to set up a subsidiary in the USA. The initial project cost is estimated to be US dollar 400 million ; working capital requirements are estimated at US \$ 40 million. The Indian company follows the straight line method of depreciation. The finance manager of the company estimated the following in respect of this project.

- Variable cost of production and sales \$ 25 per unit
- Fixed costs per annum are estimated at \$ 30 million.
- Plant will be producing and selling 5 million units at \$ 100 per unit and
- Expected economic useful life of the plant is five years with no salvage value.

The subsidiary of Indian company is subject to 40% corporate tax in the US and the required rate of return of such a project is 12%. The current exchange rate between the two countries is ₹ 48/US\$ and the rupee is expected to depreciate by 3% per annum for next five years.

The subsidiary will be allowed to repatriate 70% of the CFAT every year along with the accumulated arrears of blocked funds at year end 5, the withholding taxes are 10%. The blocked funds will be invested in the USA money market by the subsidiary, earning 4% (free of tax) per year.

Determine the feasibility of having a subsidiary company in the USA assuming no tax liability in India on earnings received by the parent from the US subsidiary.

SECTION - D**(3×5=15)**

Answer any three questions in about one page each. Each question carries

5 marks.

1. Explain the exchange rate system in India.

2. Write a note on Foreign Currency Bonds.