THIRD SEMESTER M.B.A. DEGREE EXAMINATION, DECEMBER 2015

BUS 3EF 01/BUS 3IB 03 – INTERNATIONAL FINANCE

(2013 Admissions)

Time : Three Hours　　　　　　　　　　　　　　　　　　Maximum : 36 Weightage

Provide the working notes and assumptions wherever necessary.

Part A

Answer all the questions.

Each question carries 1 weightage.

1. Define Balance of payments.

2. What do you mean by floating rate system?

3. State the objectives of IMF.

4. Distinguish between direct quote and Indirect quote.

5. What is leading and lagging?

6. Define operating exposure.

(6 × 1 = 6 weightage)

Part B

Answer any six questions.

Each question carries 3 weightage.

7. Briefly explain the relevant factors influencing exchange rates.

8. Critically evaluate the Capital Account Convertibility (CAC).

9. What are the segments of international financial markets?

10. Discuss the major participants in the foreign exchange market.

11. Describe the salient features of financial instruments available in international financial markets.

12. What are the strategies available to handle operating exposure?

13. An Indian importer expect appreciation of US dollar while importing goods for US $ 1000. So he goes for buying $ 1000 one month forward coinciding the time of payment for the import.

Turn over

The spot rate and forward rate are respectively Rs. 63 and 63.50 per US dollar. Surprisingly, the spot rate on maturity is only Rs. 63.30/$. Will the forward deal beneficial?

14. The bank is willing to buy dollars for 0.9 euros per dollar. It is willing to sell Australian dollars (A$) to the bank for $ 0.72.

    You can buy Australian dollars from the bank for $ 0.74. The Bank is willing to but Australian dollars (A$) for 0.70 euros per A$.

    You have $100,000. Estimate your profit or loss if your were to attempt triangular arbitrage.

    (6 × 3 = 18 weightage)

Part C

Answer any two questions.

Each question carries 6 weightage.

15. Discuss the functions of IMF. What conditionalities are imposed for IMF Loans?

16. Suppose that the current spot exchange rate is € 0.80/$ and the three-month forward exchange rate is € 0.7813/$. The three month interest rate is 5.6 percent per annum in the United States and 5.40 per unit per annum in France. Assume that you can borrow upto $ 10,00,000 or 8,00,000.

    Show how to realise certain profit via covered interest arbitrage. Also determine the size of arbitrage profit.

17. Suppose Boeing imported a Rolls-Royce jet engine for £ 10,00,000 payable in one year. The market conditions are as under :

    The US interest rate   = 6% p.a.

    The UK interest rate   = 6.50% p.a.

    The spot exchange rate   = $ 1.60/£.

    The one year forward exchange rate = $ 1.75/£.

    Explain how Boeing Corporation could use money market hedge to handle transaction exposure.

    (2 × 6 = 12 weightage)