Registration No. : | | | | | | | | | | |

Total number of printed pages – 2

MBA

MBA 405 B

Fourth Semester (Special) Examination – 2013

INTERNATIONAL FINANCIAL MANAGEMENT

BRANCH : MBA

QUESTION CODE : E 488

Full Marks – 70

Time : 3 Hours

*Answer Question No. **1** which is compulsory and any **five** from the rest.*
The figures in the right-hand margin indicate marks.

1. Answer the following questions : 2×10

   (a) Define ADR.

   (b) Distinguish between direct and indirect quote of exchange rate.

   (c) Pound is expected to appreciate to \$1.930. Pound options are available at a strike price of \$1.830/£. How do speculators react to the appreciation of pound ?

   (d) What is mint parity found in Gold Standard ?

   (e) Find out the forward rate differential if spot rate of US \$ is Rs. 45 and one month forward rate is Rs. 45.80.

   (f) Explain the economic exposure.

   (g) Find Rs/Euro exchange rate if: the two exchange rates are : Rs 43.93-43.95/US\$ and Euro 0.83-0.84/US\$.

   (h) What do you mean by Forex Risk Management ?

   (i) Find one month forward rate of US Dollar if spot rate is Rs. 45.00 and the forward premium is 12%.

   (j) What is Bid-Ask spread ? How is it computed ?

2. Alwyn Sports, a US company, made an order for import of sport goods for Pound 63,000 from a British Supplier. The supply is to reach US port after two months. The importer may : 10

   (a) Purchase one call option

   (b) Purchase one Futures Contract

   The Futures price on Pound has shown a marginal discount from the existing spot rate. But the importing firm would prefer to use currency optionsfor hedge, especially because British Poundhas shown oscillations. With pound becoming

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more stable, the importingfirm may prefer to let the transaction unhedged. Under these conditions, the hedger prefers going for options because as an option buyer, it enjoys the privilege of not exercising the contract if pound depreciates. The following table shows the futures and options details available to the firm :

	Before Event	After Event
Spot Rate	US$ 1.7400	1.7400
Futures Price	1.7380	1.7380
Options Strike Price	1.7420	1.7426
Options Premium per Pound	0.0500	0.0500

Questions :

(i) If the importer goes for buying the call, which strike price should it use ?

(ii) Should the importer allow its pound position to remain unhedged ? Should the importer go for a Futures Hedge ?

3. What do you mean by Translation Exposure ? Discuss the different methods of translation. 10

4. State the various risks borne by a swap dealer. 10

5. Explain the criteria followed while raising funds from International Financial Market. 10

6. What do you mean by Capital Account Transactions? 10

7. Suppose spot rate on April 1 is 1.785/£. Pound Futures contract is sold at $1.790 for June delivery and at $1.785 for September delivery. Expecting that pound will depreciate fast after June, a speculator buys the former and sells the latter. Later he finds that pound may appreciate by June but may not depreciate subsequently. So he reverses the two contracts respectively at $1.78 and $1.76. Suppose the exchange rate on both the maturity dates is $1.795/£. Find how much the speculator gains/loses. 10

8. Find out the transaction gain/loss on the basis of the following data pertaining to India's foreign trade : 10

	US$, Million	Japanese yen, Million	British Pound, Million
Import	1250	650	800
Export	1150	625	850
Pre-change rate	Rs. 45/$	Rs.0.40/Yen	Rs.70/Pound
Post-change rate	Rs. 47/$	Rs.0.41/Yen	Rs. 68/Pound

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