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SARDAR PATEL UNIVERSITY
B.B.A. [ITM] Examination, VIII Semester
Tuesday, 3rd March, 2015
Time: 10.30 a.m. To 12.30 p.m.
Subject Code: UM08EBBI03
Subject: Fundamentals of International Financial Management-II

Total Marks: 60

Q-1(a)	Discuss capital budgeting in the international context and explain the issues in the foreign investment analysis.	[10]
Q-1(b)	Write short note on (a) Parent v/s Project cash flows	[05]

OR

Q-1	Write short note on :(a) Tax treatment of foreign source income (b)Political & Risk analysis (c)Exchange rate change and inflation.	[15]
Q-2	Discuss the discounted cash flow criteria for project evaluation of a multinational corporation with appropriate examples.	[15]

OR

Q-2 An Indian company is planning to set up a subsidiary in the US. The initial project cost is estimated to be US dollar 400 million; working capital requirements are estimated at US dollar 40 million. The Indian company follows the straight-line method of depreciation. **[15]**

The finance manager of the Indian company estimated data in respect of the project as follows:

1. Variable cost of production and sales $25 per unit.
2. Fixed cost per annum are estimated at $30 million
3. Plant will be producing and selling 50 million units at $100 per unit
4. The expected economic useful life of the plant is 5 years with no salvage value.

The subsidiary of the Indian company is subject to 40% corporate tax rate in the US and the required rate of return of such a project is 12%. The current exchange rate between the two countries is Rs48/US dollar and the rupee is expected to depreciate by 3% p.a. for the next 5 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.

Q-3	Discuss in detail the estimation of cost of debt, preference and equity capital with appropriate examples.	[15]

OR

Q-3(a)	Explain Country Characteristics which influence MNC Capital structure decision.	[08]
Q-3(b)	A U.S MNC has its subsidiary in India. The subsidiary has issued 12 percent preference shares of the face value of Rs100, to be redeemed at year end 8. Flotation costs are expected to be 4 percent; these costs can be amortized for tax purposes during the 8 years a uniform rate. The corporate tax rate is 35 percent. Determine the cost of preference shares from the perspective of the subsidiary.	[07]

Q-4(a)	Explain the steps in management of cash and near-cash assets in a MNC.	[15]

OR

Q-4	Write a note on the following in the context of international firms: a. Management of receivables b Management of inventory	[15]

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