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(A-17) Seat NO: ________ No. of Printed Pages: 02

SARDAR PATEL UNIVERSITY
B.B.A. [ITM] Examination, VIII Semester (NC) (2010 Batch)
Thursday, 12th May, 2016
Session: Evening Time: 2.30 p.m. To 4.30 p.m.
Subject Code: UM08EBBI03
Subject: Fundamentals of International Finance-II

Total Marks: 60

Q-1(a) Write a short note on: (a) Tax treatment of foreign source income (b)Political & Risk analysis (c)Expropriation. [15]

OR

Q-1(a) Explain international capital budgeting & discuss its basic frame work. [08]

Q-1(b) Briefly explain the effect of inflation on international capital budgeting decision with appropriate example. [07]

Q-2(a) "Capital budgeting for foreign project is considerably more complex than the domestic one, identify the factors that add complexity" Discuss the above statement [07]

Q-2(b) Discuss briefly the discounted cash flow techniques used for multinational project evaluation. [08]

OR

Q-2 A US MNC is planning to install a manufacturing unit to produce 500000 units of an automobile component in India. Setting up of the manufacturing plant will involve an investment outlay of Rs.50 million. The plant is expected to have a useful life of 5 years with Rs.10 million salvage value. MNC will follow the straight line method of depreciation. To support the running of business working capital of Rs.5 million, will have to be invested; variable cost of production and sales will be Rs.20 per unit. Additional fixed costs per annum are estimated at Rs.2 million. The forecasted selling price is Rs.70 per unit. The MNC will be subjected to 40 percent tax rate in India and its required rate of return is 15%. [15]

It is forecasted that the rupee will depreciate in relation to US dollar @ 3 percent per annum, with an initial exchange rate of Rs.48/$.Accordingly, the exchange rates for the relevant 5 year period of the project will be as follows:

Year	*Exchange rate*
0	Rs.48/$
1	RS.49.44/$
2	Rs.50.92/$

(P.T.O.)

3	Rs.52.45/$
4	Rs.54.02/$
5	Rs.55.64/$

Advise the MNC regarding the financial viability of the proposal.

Q-3(a) Explain with appropriate illustrations the estimation of cost of equity and debt for a multinational corporation. [15]

OR

Q-3(a) Chambliss Inc. hired you as a consultant to help estimate its cost of capital. You have been provided with the following data: D_0 = \$0.90; P_0 = \$27.50; and g = 8.00% (constant). Based on the DCF approach, what is the cost of equity? [05]

Q-3(b) Suppose that a foreign project has a beta of 0.85, the risk-free return is 12%, and the required return on the market is estimated at 19%. What is the cost of capital for the project? [03]

Q-3(c) Why does the cost of capital for MNCs differ from that for domestic firms? [07]

Q-4(a) Discuss the intra-flow of cash in the international scenario. **[10]**

Q-4(b) Why is the management of working capital more complex in the international firm than in a domestic firm? **[05]**

OR

Q-4 Discuss the following in the context of international working capital management: [15]

a. Management of inventory
b. Financing of current assets

-X-X-X-X-X-X-X-X-X-X-X-

— x —

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