(A6) SC

SARDAR PATEL UNIVERSITY

TYBBA[Foreign Trade] SEM – V

Subject : International Financial Management - III

UM05CBBF02

Monday, 16 March 2015; 10.30 am - 12.30 pm

Total Marks: 60

Q.1(a)	Explain benefits and policy of Foreign Institutional Investors.	[10]
Q.1(b)	Briefly discuss ADR and GDR.	[05]

OR

Q.1	What is Foreign Direct Investment? Explain extent ,factors affecting and policy of FDI.	[15]
Q. 2	Discuss the different forms with qualitative and quantitative techniques for evaluating political risk.	[15]

OR

Q. 2	Describe in detail Management of Political Risk.	[15]
Q.3	Explain factors affecting Foreign Exchange Market with its structure.	[15]

OR

Q.3(a) Electronics Corporation Ltd., your customer, have imported 5,000 catridges at a landed cost in Mumbai, of US$ 20 each. They have the choice of paying for the goods immediately or in three months time. They have a clean overdraft limit with you where 10% p.a. rate of interest is charged. [10]

Calculate which of the following methods would be cheaper to your customer:

a) Pay in three months time with interest at 7% and cover the exchange risk forward for three months.
b) Settle now at the current spot rate and pay interest of the overdraft for three months.

The rates are as follows : Mumbai $/INR Spot :48.75-48.80

3-month swap : 25/35

(b) The following quotes are available in London: [05]

£/AUD Spot : 2.8375/85

Spot/Next : 7/12

Today is Monday. Calculate the rate for delivery on Thursday Explain your calculations.

Q.4(a) Today is March 1. A UK firm is planning to import chemicals worth \$6 million from US. The payment is due on June 1. The spot \$/£ rate is 1.5765 and the three-month forward rate is 1.5685. LIFFE \$/£ future are trading at 1.5695. Explain how the firm can hedge its payable by using future. [10]

On June 1 the \$/£ spot rate turns out to be 1.5875 and June futures price 1.5850. Would a forward hedge have been better than future hedge?

(b) Explain the meaning of the following terms : [05]

i) Floor Trader

ii) Scalper

iii) Market Order

iv) Intracommodity Spread

v) Intercommodity Spread

OR

Q.4(a) On May 11th, the following prices are observed in the inter-bank market and the IMM : [10]

	JPY/USD	SEK/USD
Spot	0.6642	0.6028
June	0.6689	0.6050
July	0.6632	0.5972
August	0.6595	0.5897

What do these price imply regarding market's long term view of JPY 's prospects against the SEK?A Speculator thinks that JPY is going to move in the opposite direction against the SEK. On September 10, the following rates are materialize:

	JPY/USD	SEK/USD
Spot	0.6475	0.5815
September	0.6441	0.5795

How can speculator make profit from his forecast? Assume contract size is of 1,25,000.

Q.4(b) Explain Normal Backwardation Hypothesis of expected future price. [05]

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