

SEAT No. _____

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[3/A-4]

SARDAR PATEL UNIVERSITY
BBA(FT/IB) (IV Semester) Examination
Subject: International Financial Management - II
Code: UM04CBBB02/F02
Year: 2017-2018

Date : 17/04/2018
Day : Tuesday

Time: 10:00a.m to 12:00p.m
Total Marks: 60

- Q.1 Clarify the concept for Foreign Exchange Market. What is need for Foreign Exchange Forecast? Briefly discuss different techniques for forecasting. [15]

OR

- Q.1(a) Write short note on : [10]
1) Forward v/s Future market
2) Factors influencing Foreign Exchange Rate
- Q.1(b) Find ₹ /Euro exchange rate if the two exchange rates are : ₹ [05]
43.93-43.95/US \$ and Euro 0.83-0.84/US \$.
- Q.2(a) What do you mean by Translation Exposure? Do the different methods of translation arrive at different sizes of exposure? Explain. [10]
- Q.2(b) Explicate how we can manage Translation Exposure. [05]

OR

- Q.2 Find out Translation loss/gain on the basis of following data: [15]

Liabilities	Amount ₹	Assets	Amount ₹
Current liability	20,000	Current Assets	30,000
Long term debt	20,000	Inventory(market value)	20,000
Deferred income taxes	10,000	Prepaid expenses	10,000
Bonds	21,000	Cash	10,000
Capital Stock	24,000	Fixed Assets	40,000
Retained Earnings	25,000	Goodwill	10,000
Total	1,20,000	Total	1,20,000

Us Dollar prior to exchange rate 40 LC = \$1

After devaluation of Local Currency 45 LC = \$1

After revaluation of Local Currency 30 LC = \$1

- Q.3 Discuss Transaction Exposure with its managing techniques to hedge transaction exposure. [15]

OR

(P.T.O.)

- Q.3 Will Investor go for a hedge contract? If so, which of the option [15]
he will select.
- a) Spot rate on the date of the contract ₹ 70/\$
 - b) Three month forward rate ₹ 70.50/\$
 - c) Strike rate in three month call option ₹ 70.60 /\$ with 5% premium
 - d) Strike rate in three month put option ₹ 70.60/\$ with 5% premium
 - e) Interest rate on deposit and borrowing rate is 6% and 7% respectively
 - f) Spot rate on the date of payment maturity ₹ 70.90/\$
 - An Indian importer imports goods worth \$1,00,000 , to make a payment after 90 days
 - An Indian exporter export goods worth \$50,000 to receive a payment after 90 days.

- Q.4 What is Economic Exposure? Discuss in detail how to manage [15]
economic exposure.

OR

- Q.4 Lufthansa airlines is the wholly owned Danish affiliate of US [15]
Multinational Industrial aircraft firm. It manufactures aircraft in
Denmark with 70% of its output (i.e 2000 units) currently being
sold in Denmark and the remaining 30% exported to other
countries at DKK 250 per unit.
Lufthansa uses Local and Foreign sources of raw materials. Total
Operating and Overhead expenditures are DKK 2,00,000 and DKK
1,08,000 respectively.
The effective Denmark Tax rate on corporate profit is 45% and
the annual depreciation charges on plant and equipment in Danish
Kroner (DKK) is DKK9,000.
Lufthansa has outstanding DKK3,00,000 in debt with interest
payable at 10% annually. The current exchange rate is DKK
0.6=\$1
Assume that the Danish Kroner devaluated by 40% . All cost and
prices are increase in proportion to the Danish Kroner but unit
volume remain the same. On the basis of this information
calculate economic exposure.

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