Lib.

[11]

Total No. Pages 3

SARDAR PATEL UNIVERSITY
MBA IV SEMESTER EXAMINATION, 2008

INTERNATIONAL FINANCIAL MANAGEMENT
FM – 204

Time: 11.00 am to 2.00 pm THRUSDAY April 03, 2008
TOTAL MARKS: 70

Note: All questions are compulsory. Q. no. 1 carry 28 marks while Q. no. 2 to Q no. 8, carry 6 (six) marks each.

Q.1 Answer the following

(i)What do you mean by full convertibility of a currency? Briefly discuss the foreign capital flows and related policy during last few years in India.

(ii) Explain the distinction between exchange rate exposure and risk. Why is it important to make the distinction?

(iii) Supposing that the Indian rupee continue to appreciate against all major currencies for coming couple of years, does this mean that Indian exporters must experience declining profits on their exports? Why or why not.

(iv) Why should a corporate finance finance manager monitor BOP developments?

(v) Discuss the Bretton Woods system of exchange rate management.

(vi) Briefly discuss the economic impact of Euromarkets and other Off-shore markets.

(vii) Summarize the various considerations that enter into the decision to choose the currency, market and vehicle for long term borrowings.

Q.2. A US firm enters into 6 long Japanese yen futures contract on September 22nd, at a price of \$0.00892/¥. Subsequently, the settlement prices of the contract are:

Date	Future Price (\$/¥)
Sep. 22nd	0.008854
Sep. 25nd	0.008665
Sep. 26nd	0.008456
Sep. 27nd	0.008704
Sep. 28nd	0.008548

The standard size of the contract is 1, 25, 00,000 yen.

a. Compute the cash flow incurred by the firm at the end of each day because of the marking-to-market.
b. If the initial margin is $3000/contract and the maintenance margin is $1750/contract. Show the firm margin account and amount of additional deposits to be made (assuming no withdrawals)

Q.3. A US firm expect to receive Can $300 million six months hence. It decides to write 6000 American call option (each with a face value of Can $50,000). The available options are as follows:

Strike Price	Option Price (US $) per contract
0.68	598.50
0.69	325.00
0.70	156.50

The firm must pay lump sum brokerage fees of US $ 24,000 for writing the options. A flat exercise fee of US$ 210,000 is payable by the firm to the clearing corporation if the options are exercised.

Draw up a pay-off table for the various strike prices given above if the spot rates at the time of maturity of the receivables are $0.675, $0.685, $0.695 and $ 0.705.

Q.4. A stock trades at 110 and there are two European options currently available.

Put	Strike Price	Premium
A	114	5
B	117	9

Explain how a speculator can make arbitrage profits (No interest costs).

Q.5. A Swiss exporter expected to receive $1,000,000 after three months the exporter has to collect the following information

Spot (SF/$) : 1.48/1.52
Three months forward (SF/$): 1.52/1.58
Three months LIBOR : SF- 5%
$ - 4%

If the exporter decides to use the money market or forward market to cover the exposure what will be the position after three months in these markets.

Q 6. UK importer will have to settle an invoice for DM 1,000,000 after three months he has collected the following information

Three months interest rates : DM - 4%
£ - 6%

Spot (DM/£) : 2.40/2.41

Three –month forward (DM/ £) : 2.35/2.37

What would you recommend for covering the exposure: Forward market or money market?

Q. 7. An Indian customer who has imported equipment from Germany has approached its bank for booking a forward DM contract. The delivery is expected sometime during the sixth month from now. The following rates are being quoted.

DM / $ spot: 1.584/1.585
3 month forward: 0.030/0.029
6 month forward: 0.059/0.058

Rs./$ spot: 35.60/35.70
3 month forward: 15/25
6 month forward: 20/30

What rate bank will quote if it needs a margin of 0.5%?

Q. 8. You have obtained the following information from your banker:

Rs./Can$: Spot : 25.00/26.00
6 month forward: 25.50/26.50
6 month rupee interest rate: 15%

What should be the interest rate on Can$ to eliminate the arbitraging possibilities?