R19

Code No: 764AE

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA IV Semester Examinations, March/April - 2023
INTERNATIONAL FINANCIAL MANAGEMENT

Time: 3 Hours **Max.Marks:75**

Note: i) Question paper consists of Part A, Part B.
ii) Part A is compulsory, which carries 25 marks. In Part A, Answer all questions.
iii) In Part B, Answer any one question from each unit. Each question carries 10 marks and may have a, b as sub questions.

PART - A

(25 Marks)

1.a) Briefly discuss the emerging challenges in international financial framework. [5]
b) What are the various methods of payments in international monetary transactions?[5]
c) Explain the concept of covered interest arbitrage. [5]
d) What is International Fisher effect? What is the rational for its existence? [5]
e) Briefly explain the function of EXIM bank. [5]

PART - B

(50 Marks)

2.a) Why is it important to have a knowledge of international monetary system?
b) What do you understand by full convertibility of currency? [5+5]

OR

3.a) Explain why US Dollar continues to dominate as international currency.
b) Briefly discuss the scope of International Financial Management. [5+5]

4.a) What are the components of the balance of payments?
b) Why stock of gold as international liquidity was discarded at the early system of IMF? [5+5]

OR

5. Discuss the evolution of floating system of exchange rate. What are its features? Briefly explain. [10]

6.a) Assume that the spot exchange rate of the British pound is \$1.73. How would this spot rate adjust according to purchasing power parity if Great Britain experiences an inflation rate of 7 per cent while the USA experiences an inflation rate of 2 percent?
b) What do you understand by foreign exchange swaps? [6+4]

OR

7. A company has purchased equipment from an American firm for \$6,000,000 payable in 4 annual instalments. The first installment is payable immediately. The US company allows credit at 6% p.a. The purchaser, whose revenues are in pound sterling, is at risk from an appreciation of the US dollar against sterling. The purchaser shops around for forward contracts and finds that the UK subsidiary of a US bank is prepared to offer one, two, and three- years forward contracts at British Pound 1 = \$1.47, 1.44, and 1.41 respectively. The spot rate for British pound 1= \$1.50. Should the forwards be used to restructure the debt? [10]

8. Often the forward premia/discounts in foreign exchange transactions are viewed as cost of hedging by many managers. Analyze and explain why this is an incorrect view. [10]

OR

9. A US company has bought 30 personal computers from a British company for 62,500 pounds. Its payment must be made in British pounds 90 days from now. The premium for a pound call option with a strike price of \$1.60 and 90 day expiration date is \$0.04per pound. The current spot rate for pounds is \$1.58; the US company expects that the spot rate in 90 days will rise to \$1.66. The US company has two alternatives: do not hedge and hedge in the options market. Should the US company, choose the call option hedge or no hedge? [10]

10. Explain Adjusted Present Value (APV) technique of capital budgeting. Why is it more suitable for evaluating foreign projects than the conventional NPV format? [10]

OR

11. A company has been traditionally borrowing floating funds at a spread of 15 bp over 6-month LIBOR from its bankers. It finds that it can issue 5-year fixed rate bonds at 35bp over treasuries which are yielding 8.20%. Fixed to floating swaps are trading at 65bp over treasuries versus LIBOR. Show how the company can reduce the cost of its floating rate funding. [10]

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