Seat No:_____________ Enrollment No:_____________

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
MBA Winter 2017 - 18 Examination

Semester: 3 **Date: 04/01/2018**
Subject Code: 06201203 **Time: 02.00pm to 4.30pm**
Subject Name: International Finance **Total Marks: 60**

Instructions
1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as Directed

A). Multiple choice type questions/Fill in the blanks. (Each of 1 mark) **(05)**

1. The market forces influencing the exchange rate are not fully operational under
   a) floating exchange rate system c) fixed exchange rate system
   b) speculative attack on the market d) current regulations of IMF

2 The current account of balance of payments include
   a) unilateral payments c) short-term borrowings
   b) portfolio investments d) long-term borrowings

3 In direct quotation, the unit kept constant is -
   a) the local currency c) the subsidiary currency
   b) the foreign currency d) none of the above

4 Documents against payment term indicates
   a) the documents are sent by post c) the collecting bank will hand the documents to the buyer against payment
   b) the export is risky d) the exporter delivers the documents to the bank against advance

5 This is not an established method of translation -
   a) Current rate method c) Temporary method
   b) Monetary/Nonmonetary method d) Current/Non-current method

B).Define the following. (Each of 1 mark) **(05)**

1. Balance of Payment
2. Incoterms
3. Cross Exchange Rate
4. The Bid-Ask Spread
5. Forward Rate Agreement (FRA)

C).Direct questions. (Each of 1 mark) **(05)**

1. Managed Floating vs. Independent Floating
2. Absolute PPP vs. Relative PPP
3. Foreign Bond vs. Eurobond
4. Forward Points vs. Forward Rates
5. ADR vs.GDR

Q.2 Answer the following questions.

A). Suppose that the treasurer of IBM has an extra cash reserve of $100,000,000 to invest for six months. The six-month interest rate is 8 percent per annum in the United States and 7 percent per annum in Germany. Currently, the spot exchange rate is €1.01 per dollar and the six-month forward exchange rate is €0.99 per dollar. The treasurer of IBM does not wish to bear any exchange risk. Where should he/she invest to maximize the return? **(07)**

B) **(08)**

On 1st January, the bank enters into a forward purchase contract with an export customer for USD 10,000 due on 1st March at an exchange rate of Rs. 49.6000 and covers its position in the market at Rs. 49.6500.
The customer defaults to execute the contract on the due date. On 16th March, the bank cancels the contract unilaterally.

The following were the exchange rate prevalent:

On 1st March	Interbank TT rates	USD 1 = Rs. 49.7500/7600
	1 Month forward	USD 1 = Rs. 49.9500/9600
	Merchant TT rates	USD 1 = Rs. 49.6700/9000
On 16th March	Interbank TT rates	USD 1 = Rs. 49.7000/7100
	Merchant TT rates	USD 1 = Rs. 49.6400/7800

Interest on outlay of funds is 12% p.a.

Calculate the charges payable by the customer on cancellation.

Q.3 Answer the following questions.

A) **(07)**

Assume you are a trader with ABC Bank. From the quote screen on your computer terminal, you notice that XYZ Bank is quoting €1.6230/$1.00 and PQR is offering SF1.4260/$1.00. You learn that UBS is making a direct market between the Swiss franc and the mark, with a current €/SF quote of 1.1250. Show how you can make a triangular arbitrage profit by trading at these prices. (Ignore bid-ask spreads for this problem). Assume you have $1,000,000 with which to conduct the arbitrage. What happens if you initially sell dollars for Swiss francs? What €/SF price will eliminate triangular arbitrage?

B) **(08)**

An exporter-customer request you on 4th April to book a forward contract of CAD 85,000 for delivery customer's option June.
Assuming you cover your purchase of Canadian dollars in Singapore market and the USD-CAD are quoted as under :

Spot	USD 1 = CAD 1.5625/5635
1 month	30/25
2 months	60/55
3 months	80/75

And the interbank market US dollar is quoted as follows :

Spot	USD 1 = Rs. 49.4875/4975
Spot/May	1100/1200
Spot/June	2200/2300
Spot/July	3300/3400

What rate will you quote to your customer bearing in mind that an exchange margin of 0.10% has to be loaded in the exchange rate? What will be the rupee amount payable to the customer?

Q.4 Attempt any two questions. (Each of 7.5 mark) **(15)**

1. Define Letter of Credit. Explain mechanism of a Letter of Credit.
2. What is Transaction Exposure? What are the alternative ways of hedging transaction exposure?
3. Define Foreign Direct Investment. Discuss the key factors that are important in firm's decision to invest overseas.
4. State the major factors that influence the spot exchange rate of a currency.