Roll No. ______________________

(Do not write anything on question paper except Roll No.)

[This paper consists of TWO Pages]

Jagan Institute of Management Studies

End-Term Examination, December, 2016 – January, 2017

Trimester V – PGDM (IB) 2015-17

International Financial Management

ET_IB_IFM_2612

Time: 3 Hrs. *M. Marks: 70*

INSTRUCTIONS: Attempt any SIX questions including Q1 which is compulsory.

Q 1 Mattel Inc is s US based company whose sales are roughly 60% in USD (Asia & US) and 40% in Euro (Europe). In Jan'09, Mattel sells a large consignment of Barbie to Antwerp. The receivables of Euro 20MM are due to be received after 90 days. Mattel management is considering various hedging options to secure these receivables considering the turbulence in forex markets. Advise Mattel on the best available option, given that

Spot rate	Euro 0.7450 / $
UBS 90 day forward	Euro 0.7325 / $
Mattel WACC	7.5%
90 D Euro borrowing rate	4.25%
90 D Euro investment rate	2.75%
90 D Dollor borrowing rate	1.25%
90 D Dollor investment rate	0.75%
Premium on 90 D option with Euro 0.74SP	0.50%

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Q 2 You are given the following $ quotes:

Spot Rs 40.50/40.60
2 months forward 0.10/0.20
3 months forward 0.20/0.10
4 months forward 0.25/0.30

a) Calculate 2 months, 3 months and 4 months forward rates.

b) What amount you will pay in rupees for purchasing 5,00,000 USD?

c) How many Dollars you will sell to get Rs.5, 00,000? (You have enough Dollars).

d) Calculate % of discount/premium of Dollars on 3 months and 4 months forward rates assuming that you are buying $. **11**

Q 3 A forex dealer sees the following prices on her screen:

Spot Rate	GBP 0.7568/$
3-M Forward	GBP 0.7695/$

US 3-month treasury rate 1.50% p.a.
British 3-month treasury rate 2.75% p.a.
Could the trader profit by placing $500K of principal in a Covered Interest Arbitrage (CIA) operation in Britain? **11**

Q 4 Explain transaction exposure and different ways to mitigate these exposures. **11**

Q 5 Is it possible for a project to be unviable for the JV of an International company, even though it is viable for the parent company? Give reasons for your assertion. **11**

Q 6 X co. Ltd, an Indian company, has to make payment of 3 million USD after six months against import of machinery. What are the different alternatives to hedge against this foreign exchange currency exposure? Give explanations. **11**

Q 7 To adhere to a fixed exchange rate and have an independent monetary policy, the economy has to give up free capital mobility. Do you agree with the statement? Explain with reasons. **11**

Q 8 You are treasury head of a large MNC. On a day, you currency analyst comes to inform you that she has observed the following spot quotes at her trading screen:

ABN Amro Bank quoting	S(£/$) 0.7950
Bank of Tokyo	S(¥/£) 144.2500
Citibank	S(¥/$) 116.7550

Do you believe that an opportunity exists to make money using "Triangular" arbitrage? If you have a corpus of $1,000,000, how can u utilize it? **11**

Q 9 Write short note on any **TWO** of the following:

a) Purchasing Power Parity.
b) Law of one Price.
c) Netting as a solution to Strategic risk.
d) Balance of Payment. **11**

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