No. of Printed Pages : **2**

21MBA4E8CL

Sl. No.

MBA IV Semester Degree Examination, October - 2023

International Financial Management

(NEP)

Time : 3 Hours | Maximum Marks : 70

Note : *Answer **any five** of the following questions with Question No.**1(Q1)** compulsory, each question carries **equal** marks.*

1. The Globalization of financial markets brought about by recent technological changes, financial market liberalization and the removal of capital controls have impressed upon all MNCs with international cash flows the necessity to manage foreign exchange exposure that a floating exchange system creates. Today, multinational firms are trying to develop techniques and strategies for effective foreign exchange exposure management. The foreign exchanges strategy adopted is critical to a MNC in the present day environment due to the high variability in the exchange rates and needs to evolve with the changing structure of the company. Further, in view of the fact that firms are now more frequently entering into financial and commercial contracts denominated in foreign currencies, judicious measurement and management of transaction exposure has become critical to the success of an MNC. **14**

Outline the numerous challenges that an MNC faces when trying to manage exposure in various currencies.

2. A foreign exchange trader gives the following quotes for the Belgian franc Spot, one month, three months and six months to a US based treasurer **14**

$0.02368/70	4/5	8/7	14/12

(a) Calculate the outright quotes for one, three and six months forward.

(b) If the treasurer wished to buy Belgian francs three months forward, how much would he pay in dollars ?

(c) If he wished to purchase US dollars one months forward, how much would he have to pay in Belgian francs ?

(d) Assuming that Belgian francs are being bought, what is the premium or discount, for one, three and six months forward rates in annual percentage terms ?

(e) What do the above quotations imply in respect of the term structure of interest rates in the USA and the Belgium ?

3. What role do the central banks of the world play in determining the value of foreign exchange. **14**

4. Discuss the three kinds of Exposure. Give examples to illustrate each. **14**

5. Compaque Industries is the French manufacturing subsidiary of a US corporation. Compaques balance sheet, in thousands of French francs, is as follows : **14**

Assets	**Amount**	**Liabilities**	**Amount**
Cash	FFr 1,14,400	Accounts payable	FFr 10,000
Accounts receivable	10,600	Notes payable	10,000
Inventory	12,000	Long-term debt (in FFr)	12,800
Net plant and equipment	16,000	Shareholder's equity	20,200
Total	FFr 52,000		FFr 53,000

Current spot exchange rate : FFr 6.00/$

Six-month forward exchange rate FFr 6.60/$

Management's forecast of spot rate in six months FFr 6.90/$

(a) What is Compaques translation exposure by the current rate method and monetary/non-monetary method.

(b) If the francs depreciates as expected by the management, what will Compaque contribute to its parent's translation loss or gain ?

6. What does the term foreign exchange rate mean ? Explain the factors affecting foreign exchange rate. **14**

7. "MNCs with less risk can obtain funds at lower financing cost". Elucidate with examples. **14**

8. Write a short note on :

(a) FDI **5**

(b) FASB 52 **5**

(c) Foreign Exchange quotation **4**

- o 0 o -