2023

M.Com.

4th Semester Examination

COMMERCE

PAPER : COM-402.1 & 402.2

(International Financial Management)

Full Marks : 50

Time : 2 hours

The figures in the right-hand margin indicate marks.
Candidates are required to give their answers in their own words as far as practicable.
Illustrate the answers wherever necessary.

COM-402.1

1. Answer *any* **two** questions from the following : 2×2=4

   (a) What are the different methods of quoting foreign exchange rates?

(b) Who are the participants in forex market?

(c) What is forward rate differential?

(d) What are cross rates?

2. Answer *any* **two** questions from the following : $4 \times 2 = 8$

(a) State the differences between spot market and forward market.

(b) Forward premiums for the US dollars (in paise per US $) are given below :

Month	**Exporters**	**Importers**
April	17	18
May	32	33
June	44	46
July	57	59
August	68	70

The spot rate for the US dollar : 68.75 (bid rate) and 69.15 (offer rate).

Find out forward rates for the different months.

(c) (i) The inflation rates in India and USA over the year are expected to be 7.5% and 4% respectively. The current dollar-rupee exchange rate is ₹73.15/US $. The interest is likely to be 5% in the USA. What would be the expected nominal interest rate at the year end?

(ii) The current exchange rate between the US dollar and the Indian rupee is US $ = ₹73.15. The inflation rates in India and the USA are expected to be 7.5% and 4% respectively, over the next two years. What would be the dollar-rupee exchange rate after two years?

(d) Describe the fundamentals factors affecting exchange rate fluctuations.

3. Answer *any* **one** question from the following : $8 \times 1 = 8$

(a) Explain the absolute and relative versions of the Purchasing Power Parity (PPP) theory. 8

(b) Write short notes on the following : $2 \times 4 = 8$

(i) Arbitrage

(ii) Speculation

(iii) Hedging

(iv) Covered interest arbitrage

4. Answer *any* **two** questions from the following : 2×2=4

   (a) What additional factors are to be considered in international capital budgeting compared to domestic capital budgeting?

   (b) What is an option?

   (c) Write the meaning of foreign exchange risk.

   (d) Why do companies issue American Depository Receipts?

5. Answer *any* **two** questions from the following : 4×2=8

   (a) What is forward contract? Use an example to show how it can be used by exporters for hedging. 2+2

   (b) Explain 'money market hedging' technique.

   (c) Explain the concept of syndicate loan.

   (d) Mention with reason whether there will be gain or loss in the following transactions :

      (i) Export by an Indian company in US dollars and the dollar appreciates against the rupee.

(ii) Receipt of dividend by an Indian company in pound sterling and the pound depreciates against the INR.

(iii) Import by an Indian firm from US (denominated in INR) and the rupee depreciates against the dollar.

(iv) Repayment of loan to Asian Development Bank (denominated in US dollars) and the dollar depreciates against the INR.

6. Answer *any* **one** question from the following : 8×1=8

(a) *(i)* An importer wants to hedge its payables of £1,00,000 using a call option that has an exercise price of ₹ 102.50/£ and option premium of ₹ 1.50/£. It is mentioned that the spot rate at the time of receipt of payment is likely to be ₹ 100/£ (10% probability), ₹ 102/£ (40% probability) and ₹ 104/£ (50% probability). On the basis of above information, you are required to compute the expected cash outflow as a result of hedging.

(ii) Explain the concept of parallel loans. 4+4

(b) (i) Explain matching as a hedging strategy.

(ii) PK Ltd., an Indian Company, has received a proposal to carry out a 4-year duration project in USA that will require an initial investment of ₹78,00,000. Following are the details of the project :

Year	PAT ($ Lacs)
1	25
2	30
3	45
4	55

It is given that a machine costing US$ 25 lacs will be used in the project on which depreciation will be charged @10% on WDV basis. Assuming that the cost of capital is 12%, corporate tax rate is 30% and withholding tax rate is 18%, compute NPV of the project if the exchange rates are as follows :

Year 1 : ₹79/$, Year 2 : ₹81/$,

Year 3 : ₹80/$ and Year 4 : ₹84/$. 3+5

[Internal Assessment : 10 Marks]

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