(ii) How can he hedge this transaction? 3

(iii) What is the hedged cost of payment? 2

(iv) Discuss the factors that will influence his hedging decision. 3

7. Futures market serves the need of individuals and groups who may be active traders or passive traders, risk averse or risk takers and / or profit makers. Briefly outline the functions of futures market. Also mention various types of futures contracts. 6+4

Unit-IV

8. Foreign currency hedging strategies may be external or internal to the firm. Discuss various hedging techniques employed by firms. 10

9. A foreign company expects to receive Mexican New Pesos 15 Million entertainment fees from mexico in 3 months. The current spot rate is \$0.2320/NP and 3-months forward is \$0.2240/NP

(i) What is the company's Peso transaction exposure associated with this fee? 3

(ii) What is the expected \$ value of the fee if the spot rate expected in 3 months is \$0.2305. Also calculate hedged dollar value of the fee? 4

(iii) Differentiate between hedging and speculation. 3



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Roll No. ____________

# MS-3097

M.B.A. (Fourth Semester) Examination, 2015

## International Financial Management

(FP–423)

***Time Allowed : Three Hours ]*** ***[ Maximum Marks : 70***

Note : Answer five questions in all. Question No. 1 is compulsory. In addition answer one question from each unit. Use of Financial/ Scientific calculator is permitted.

1. Write short notes on the following : 3×10

(a) International monetary system

(b) Utility of Balance of Payment statement

(c) Difference between a clean float and a dirty float

(d) Functions of the Foreign Exchange Market

(e) Cross rates

(f) Uncovered interest arbitrage

(g) Currency swap

(h) Applications of currency options

(i) Difference between forward and futures contract

(j) Management of Interest Rate Exposure

## Unit-I

2. MNCs account for all foreign direct investment, are very active in trade, with one third of world trade taking place within and not between companies. With reference to above-mentioned statement,

   answer the following :

   (i) Is knowledge of international finance crucial for managers? Give reasons. 3

   (ii) Describe the business environment of MNCs. 4

   (iii) What are the distinguishing features of international finance. 3

3. Discuss a few recent international events and their impact on global financial markets with added emphasis on Indian currency volatility. 10

## Unit-II

4. A foreign exchange dealer has $1 Million that he is free to invest in any currency. He can trade at the following price :

| | |
|---|---|
| Spot rate, Mexican New Pesos | NP15/$ |
| 6-month forward rate for Mexican New-pesos | NP16/$ |
| 6-month Mexican interest rate | 18% |
| 6-month US interest rate | 5% |





   (i) Is it profitable to go for CIA? give reasons 2

   (ii) If yes, explain the steps assuming an initial investment of $1 million. What is the profit. 5

   (iii) Calculate the currency premium or discount for Mexican New Pesos. 3

5. A foreign exchange trader has provided following information for spot, one-month, three-months and six-months forward, quotations

   $0.02479/81 3/5 8/7 13/10

   (i) What does this mean in terms of dollars per Euro? 3

   (ii) If you with to buy spot Euros, how much would you pay in dollers? 3

   (iii) What is the premium or discount for dollars in one, three and six month forward quotations in annual percentages? 4

## Unit-III

6. An importer has to make a payment of £10 million in 90 days.

   The sport rate for pound is $1.5000. Rate for 90-day pound forward is $1.5201. Expected spot rate in 90 days is $1.5050 :

   (i) What is the expected cost of payment? 2