[This question paper contains 4 printed pages.]

2112 *Your Roll No.* ....

M.Com. / Sem. IV **A**

Paper – 7112 : International Financial Management

(Admissions of 2009 and after)

Time : 3 Hours *Maximum Marks : 70*

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt **All** *questions.*
All *questions carry equal marks.*

1. (i) Explain briefly currency futures market.

(ii) Discuss how 'marking to market' principle works in a future market.

(iii) What are the points of difference between future contracts and forward contracts ? (4+5+5)

OR

(i) Explain currency call options.

(ii) What are the factors which affect the call option premium ?

(iii) Suppose a firm buys a call option of Canadian dollars (C$) at a strike price of $·70 and an

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option premium on C$ equal to $·01 per unit. One option contract equals C$50,000. If the firm exercised the option when the spot rate reached $·74, find its net profits. Also find the net profit of the seller of the option. (5+4+5)

2. (i) Explain the monetary theory of exchange rates.

(ii) What are the points of difference between the monetary theory and the flow theory of exchange rates. (7+7)

OR

(i) Explain triangular, locational and covered interest arbitrage.

(ii) Discuss withholding taxes and capital gains taxes.

(iii) Under what conditions does withholding taxes not have any effect on covered interest parity condition. (6+4+4)

3. (i) What is transaction exposure ?

(ii) Explain how this can be managed through a money market hedge.

(iii) Show that under no transaction costs, money market hedge yields the same results as the forward hedge ? (5+4+5)

OR

(i) What is translation exposure ?

(ii) Discuss the ways to reduce translation exposure. (6+8)

4. An Indian MNC has a subsidiary in the United Kingdom. To meet its investment needs, the subsidiary firm wants to raise GBP 10 million by issuing five year bonds in the British market at the coupon rate of 10 percent per anum, payable annually. The floatation cost is expected to be 2 percent. The corporate tax rate in the United Kingdom is 25 percent. The current spot rate is GBP/INR 82. The INR is expected to depreciate at 1 percent each year, for the next five years. If the average cost of capital of the firm is 8 percent, should it raise the proposed debt or not ? (14)

OR

How the Capital Structure of MNCs is different from that of a domestic owned firm ? What are the various factors that need to be considered while deciding the capital structure of a MNC ? (14)

5. Explain the following, highlighting the importance in international trade financing and various parties involved in –

(i) Letter of Credit

(ii) Forfeiting (7+7)

OR

Highlight the additional issues involved in the following in case of MNCs :–

(i) Inventory Management

(ii) Receivables Management (7+7)