another which has a highly decentralized approache. Compare the two approaches and indicate why multinational financial managers may pursue one or the other of your choice. 7

SECTION—C

5. A USA based company is planning to set up a software development unit in India. Software developed at the Indian unit will be bought back by US parent at transfer price of US dollar 10 million. The unit will remain in existence in India for one year, as the software is expected to get developed within this time frame.

The US based company will be subject to corporate tax of 30 percent and withholding tax of 10 percent in India and will not be eligible for tax credit in the USA. The software developed will be sold in the US market for US dollar 12.0 million. Other estimates are as follows :

Rent for fully furnished unit with necessary hardware in India	Rs. 15,00,000
Manpower cost (80 Software Professional will be working for 10 hours each day)	Rs. 400 per man hour
Administrative and other costs	Rs. 12,00,000

Advise US company on the financial viability of the project. The rupee dollar rate is Rs. 48/\$. 14

M.B.A. (Semester—III) Examination

INTERNATIONAL FINANCIAL MANAGEMENT

Paper—MBA/3104/F

Time—Three Hours] [Maximum Marks—70

N.B. :— (1) Attempt **ALL** questions.

(2) Figure to the right indicates marks.

SECTION—A

1. (a) What were the salient features of the international monetary system under the Bretton woods ? What were the factors responsible for its breakdown ? Explain. 14

OR

(b) Discuss the economic framework of international financial management. Also state what forces have brought about a rapid change in the field of international financial management ? 14

SECTION—B

2. (a) What are the various alternatives available to a firm to finance its international investments ? Explain two major methods of financing international operations. 7

(b) Assume that in India one-year interest rate is 18%. Also assume the Indian rupee is expected to appreciate by 10% over the next year against the U.S. dollar. What is the expected effective yield on a one-year deposit in India by a U.S. firm ? 7

OR

(c) Discuss management of short term assets and liabilities of multinational corporation. 7

(d) Why is international factoring of accounts receivables relatively more costly than factoring domestic receivables ? Would you advise a highly diversified MNC which regularly generates substantial receivables in a large number of countries to resort to factoring ? 7

3. (a) How does increased availability of capital to multinational firms impact their cost of capital ? Does market segmentation result invariably in a higher cost of capital for an affiliate in a segmented market ? Explain. 7

(b) Suppose a French subsidiary operating in Africa has cost of equity of 15 percent. It is estimated that repatriation will cause incremental taxes in Africa and France to the tune of 20 percent. Further, transfer costs in remittance are likely to be 1 percent. Determine the cost of retained earnings. 7

OR

(c) Explain the rationale of using weighted average cost of capital to evaluate foreign investment. Do you think it always provides the best results ? 7

(d) An Indian subsidiary of an American multinational borrows in India at the rate of 11 percent. The subsidiary is subject to a tax rate of 35 percent. The anticipated average annual devaluation of the Indian rupee in relation to U.S. dollar is 2 percent. Compute the cost of debt to the multinational. 7

4. (a) Define political risk. What factors affect the degree of political risk faced by a firm operating in a foreign country ? 7

(b) Draw up a strategy for a Japanese MNC manufacturing and distributing cars from locations in Germany to manage economic exposure arising from a sharp decline in the Japanese Yen against the Euro. 7

OR

(c) Identify common political factors for an MNC to consider while assessing country risk. Briefly elaborate on how each factor can affect the risk to the MNC. 7

(d) Select an U.S. MNC that has a highly centralized exchange exposure management strategy and

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