

AU-1607

M.B.A. (Semester—III) Examination
INTERNATIONAL FINANCIAL MANAGEMENT

Paper—MBA/3104/F

Time : Three Hours]

[Maximum Marks : 70

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

(ii) Figures to the right indicate marks.

SECTION—A

1. (a) Mention the broad features of the fixed parity system of exchange rate initiated by IMF during 1940s. What are the factors responsible for its collapse by early 1970s ?

14

OR

- (b) “The International Monetary System as we have today has evolved through several different exchange rate arrangements over a period of time.” Comment.

14

SECTION—B

2. (a) Distinguish between bilateral and multilateral netting. Give examples to illustrate your answer.

7

- (b) Quincy Corporation estimates the following cash flows in 90 days at its subsidiaries as follows :

Net position in each Currency measured in the Parent’s currency (in 1000s of units) :

Subsidiary	Currency 1	Currency 2	Currency 3
A	+200	–300	–100
B	+100	–40	–10
C	–180	+200	–40

Determine the consolidated net exposure of the MNC to each Currency.

7

OR

- (c) Explain the various methods of estimating terminal cash flow. 7
- (d) Given the following data about cash requirement of an MNC and its affiliates :

Location	Mean expected Cash needs (Millions)	Standard Deviations (Millions)
Parents		
affiliate	350	50
X	75	15
Y	120	34
Z	95	25

Assuming that MNC wishes to ensure that all cash needs of the parent and affiliates can be made on time :

- (a) How much Cash will be needed by each entity under a decentralised cash management system ?
- (b) How much savings would be from a centralised cash management system ? 7
3. (a) Why do differences exist in the cost of capital across countries ? Are they advantageous to MNC or not ? 7
- (b) Assume that in India 1 year interest rate is 14 %. Also assume that Indian rupee is also getting to appreciate by 8 % over next year against US \$. What is the expected effective yield on a one year deposit in India by US firm ? 7

OR

- (c) Discuss the elements which should be considered at the time of determining capital structure of the multinational firm. 7
- (d) An American based multinational corporate firm has a subsidiary in India. The subsidiary is planning to issue 17 % Preference Shares of Rs. 100 each at PAR. Flotation cost is 5 %. Determine the cost of Preference Shares. 7

SECTION—C

4. (a) Do the different methods of translation arrive at different sizes of translation exposure ? Explain. 7
- (b) What factors affect the degree of political risk or country risk faced by a firm operating in foreign country ? 7

OR

- (c) Distinguish between transaction and economic currency exposure. Give examples to elucidate your answer. 7
- (d) Country risk analysis is different task and recent events in several countries have dramatised the importance of country risk analysis. Do you agree ? Give examples to illustrate your answer. 7

SECTION—D

5. A USA based MNC wants to install manufacturing unit in India. Setting up of the manufacturing plant will involve an investment outlay of 50 million Rs. With the capacity 5,00,000 units annually. The plant is expected to have useful life of 5 years with Rs. 10 million salvage value. The MNC follows the straight line method of depreciation. To support additional level of activity of investment will require additional working capital of Rs. 5 million.

Fixed cost per annum are estimated as Rs. 2 million. Variable cost would be Rs. 20 per unit and selling price will be Rs. 70 per unit to sell 5,00,000 units annually. The MNC is subject to 40 % tax rate and cost of capital is 15 %.

It is forecasted that rupee will depreciate or be devalued in relation to US \$ @ 3 % per year after the first year with an initial exchange rate of Rs. 36/\$.

Can you advise the USA based MNC regarding financial viability of the manufacturing plant in India ? 14