AT–1415

M.B.A. Semester–III Examination

INTERNATIONAL FINANCIAL MANAGEMENT

Paper – MBA/3104/F

Time : Three Hours] [Maximum Marks : 70

Note :— (1) Attempt **all** questions

(2) Figures to the right indicate mark.

SECTION—A

1. (a) Discuss the evolution of the IMF. What are the different funding facilities which IMF provides for Balance of Payments support to member countries ? To what extent, in your opinion, have these funding facilities been fulfilled today ? 14

OR

(b) "The imperfections and linkages of domestic financial markets, euromarkets and foreign exchange markets provide both risks and opportunities for the multinational financial manager." Comment. 14

SECTION—B

2. (a) How do international capital investment decisions differ from domestic capital investment decisions ? Briefly explain the methods of evaluating international investment decisions. 7

(b) Assume that in India one year interest rate is 16%. 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) Why would a firm consider investing short-term funds overseas ? Comment. 7

(d) Government of India has decided to promote "Make in India" campaign to attract foreign investment in India with the motto of economic development of the country. Critically examine the key elements involved in "Make in India" campaign and comment on the recent steps taken by Government of India to attract foreign investment. 7

3. (a) Explain the important components of capital structure of the multinational firm. 7

(b) Suppose a subsidiary (Company R) is financed with 30 percent equity, 60% percent debt and 10 percent retained earnings. Their respective after tax costs are 20 percent, 10 percent and 16 percent. Determine the weighted average cost of capital (WACC) of company R. 7

OR

(c) Is it correct to say that cost of capital varies between domestic and multinational firm? Explain. 7

(d) An American subsidiary operating in India has 15 percent as a cost of equity. The repatriation of retained earnings causes an incremental tax of 20 percent. The transfer cost in remittance is expected to be 2 percent. Calculate the cost of retained earnings. 7

SECTION—C

4. (a) If the potential return is high enough, any degree of country risk can be tolerated. Do you agree with this statement ? Why or why not ? 7

(b) Calculate the exchange exposure of an enterprise whose receivables and payables are indicated below :

Currency	Receivables (million)	Payables (million)	Spot rate (Rs.)
US$	1	1.5	35.0
£	2	2.5	55.2
DM	1.5	1.8	23.1
FFr	4.5	3.5	7.2

OR

(c) What are the different forms of political risk ? How is political risk managed ?

(d) An argument between two corporate finance managers was held on the statement that 'Proper Country risk analysis can replace a capital budgeting analysis of a project considered for a foreign country. You are asked to give your opinion with proper study and convince the managers. 7

SECTION—D

5. A US MNC is planning to install a manufacturing unit to produce 5,00,000 units of an automobile component in India. Setting up of the manufacturing plant will involve an investment outlay of Rs. 50 million. The plant is expected to have a useful life of 5 years with Rs. 10 million salvage value. MNC will follow the straight line method of depreciation. To support the running of business, working capital of Rs. 5 million, will have to be invested, variable cost of production and sales will be Rs. 20 per unit. Additional fixed cost per annum are estimated at Rs. 2 million. The forecasted selling price is Rs. 70 per unit. The MNC will be subjected to 40 percent tax rate in India and its required rate of return is 15 percent.

It is forecasted that the rupee will depreciate in relation to US dollar @ 3 percent per annum, with an initial exchange rate of Rs. 48/$. Accordingly, the exchange rates for the relevant 5 year period of the project will be as follows :

Year	Exchange rate
0	Rs. 48/$
1	49.44.$
2	50.92/$
3	52.45$
4	54.02/$
5	55.64/$

Advise the MNC regarding the financial viability of the proposal. (Use NPV technique).

Given

Year	1	2	3	4	5
15% PV factor	0.870	0.756	0.658	0.572	0.497

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