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 marks.

SECTION—A

1. (a) What type of exchange exposure is a multinational enterprise subject to ? Explain transaction exposure, translation exposure and economic exposure with the help of suitable example. 14

OR

(b) What factors affect the degree of political risk faced by a firm operating in a foreign country ? "Political risk is fifty percent of the exercise but inseparable from economic risk." Elucidate. 14

SECTION—B

2. (a) What do you mean by cash positions ? Should the surplus cash be centralised ? 7

(b) The Vodafone Corporations arrenged a one year \$ 1.5 million loan to a fund a foreign project; the loan was denominated in Euro and carried 10% nominal rate; the exchange rate at the time of the loan was 0.6799 euros per dollar but dropped to 0.6455 euros per dollar by the time repayment came due. What effective interest rate did Vodafone end up paying on the foreign loan ? 7

OR

(c) Is international working capital management more complex than the domestic working capital management ? 7

(d) Unit A has to pay US \$ 20 million to unit B & \$ 15 million to unit C. Unit B has to pay \$ 15 million to unit A & \$ 10 million to unit C. Unit C has to pay \$ 5 million to unit B & \$ 9 million to Unit A. Find out what will be the amount of funds movement after multilateral netting. 7

3. (a) Why do enterprises go international in their operations ? What are the different means of foreign investment ? 7

(b) A project of the subsidiary with an initial investment of \$ 15 million has a net cash inflow of \$ 10 million each year of the three years of the project. The host government permits the cash flow to the home country only after the life-time of the project i.e. after 3 years. But subsidiary invests the fund at the rate of 12% till actual outflow takes place. Calculate NPV. Current exchange rate is 1 \$ = 36 Rs. and Exchange rate after 3 years is 1 \$ = Rs. 39. Cost of capital is 10%. 7

OR

(c) Briefly explain a few important factors that should be assessed from the point of view of income tax while entering into foreign collaborations agreement. 7

(d) An Indian Company wants to set up subsidiary in USA. The initial project cost is US \$ 18 billion. The project is to generate cash inflow of \$ 7 billion per year in first 3 years and then growth of 5% per year is expected upto 8th year.

Life of the project is 8 years with the US \$ 2 billion working capital requirement. Cost of capital is 12%. Depreciation of rupee against dollar at the rate of 1% per year. The current exchange rate is Rs. 35/US \$. Calculate the NPV of the project. 7

SECTION—C

4. (a) Briefly explain the role of International Monetary Fund in stabilisation of Balance of Payments. 7

(b) Suppose India welcomes foreign investment with open arms; how does this affect current account of Balance of Payments ? 7

OR

(c) "The International monetary system as we have today has evolved through several different exchange rate arrangements over a period of time." Comment. 7

(d) What do you mean by SDRs ? Has their creation and allocation been able to improve international liquidity ? 7

SECTION—D

5. Determine effective locate cost of debt of US subsidiary in India. Given the following factors :

(i) Principal amount of debt Rs. 1 billion.

(ii) Rate of interest 16%.

(iii) Floatation cost of debt is Rs. 60 million.

(iv) Interest is to be paid at the end of each year & principal sum borrowed is to be repaid in lump sum at the end of 5th year.

(v) Subsidiary is subject to no taxes in India.

(vi) The Rs. is expected to depreciate in relation to the US \$ at the rate of 3% each year for 5 years.

Determine the effective cost of debt to US parent MNC. Assume correct exchange rate of US \$ to Indian rupee to be 36. 14