(iii) Swap-in Transaction

(iv) Hecksher - Ohline model

[This question paper contains 8 printed pages.]

Your Roll No..............

Sr. No. of Question Paper : **6039** **J**

Unique Paper Code : 2922073601

Name of the Paper : International Finance

Name of the Course : **BBA (FIA) NEP : UGCF-2022**

Semester : VI

Duration : 3 Hours Maximum Marks : 90

Instructions for Candidates

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

2. Answer any **five** questions.

3. Marks are indicated against the question.

4. The use of a Scientific calculator is allowed.

5. Mention your assumptions explicitly (if any).

P.T.O.

1. An Indian importer has three months payable of USD 100,000 on May 1st 2025. The USD/INR spot and forward rates available today in the market are as follows :

Date	Spot rate	1 month forward rate	2 months forward rate	3 months forward rate
May 1	85.75/77	20/23	32/35	12/10
June 1	85.90/93	30/33	42/45	08/10
July 1	86.15/17	10/13	12/15	12/10
Aug 1	86.05/08	13/16	17/20	22/20

The prevailing interest rates are as follows :

USD: 3.5% – 4.0%

INR: 7.25% – 7.75%

Depreciation: Rs. 100000; Tax at host country: 20%; Remittance limit: 100%; Remittance tax: 10%; Salvage value: Rs 100,000; Exchange Rate (Spot): Rs. 86/$; Expected Rupee Depreciation @ 2% each year; Initial Investment: $10000. The cost of capital in India is 10% an in America is 6%. Compute APV of the project. (9)

(b) Differentiate between Transaction Exposure Vs Translation Exposure. Which of the two has more impact on the company's profitability and why? Explain with the help of an example. (9)

(b) Write short notes on the following : (4.5×4=18)

(i) Porter's Diamond Paradox about International Trade

(ii) Euro Bond

American Subsidiary Payables: 18 to Dutch, 14 to Japanese, 17 to German

Dutch Subsidiary Payables: 15 to American, 14 to Japanese, 13 to German

Japanese Subsidiary Payables: 12 to American, 13 to Dutch, 12 to German

German Subsidiary Payables: 16 to American, 11 to Japanese, 13 to Dutch

How much will be the total payments and receipts if they follow a multilateral netting process?

(3+6=9)

5. (a) ABC Ltd., an American company, is planning to invest in India, and expects to generate cash flow for 4 years. The details are :– Revenue: Rs. 10,00,000; SD&A expenses: Rs. 200000;

Develop the hedging strategies under the following conditions based on the various expected exchange rates given in the table above :

(a) No hedging and Forward hedging

(b) Money market hedging

(c) In the case of forward hedging, what will be the impact if the importer needs money at the end of 1st month itself i.e. two months in advance?

(6+6+6=18)

2. Between Jan 2011 and Nov 2024 the INR/USD exchange rate moved from Rs 45.20/USD to Rs 84.16/ USD. During this same 14 year period, the consumer price index (CPI) in India rose from 87.64 to 196.51 and the USA CPI rose from 220.22 to 315.49. If the Purchasing Power Parity had held over this period, what would the INR/USD exchange rate have been

in Nov 2024? The information related to USA and India is as follows :

Interest rate – USA: 3.5%; India: 7.5%

Present spot exchange rate – Rs/$: 84.80; 1 year forward rate: Rs/$: 86.80

Is there any arbitrage opportunity? Substantiate your answer with calculation. What should be the spot rate after one year if IRP holds? (9+9=18)

3. (a) The quotations available in the market are as follows :

USD/INR = 85.1750/60

GBP/USD = 1.2990/96

EUR/USD = 1.0820/26

EUR/INR = 96.4550/60

GBP/INR = 112.4230/40

Calculate all possible (at least two) arbitrage opportunities and show the cash flow. (6+6=12)

(b) Briefly explain the synthesis of TT buying-selling & Bill buying-selling rates from the given Inter-bank base rate with the help of an illustration. (6)

4. (a) "India's Current Account is always in deficit (barring rare exceptions)". Suggest the measures and policy interventions to convert it a surplus account on sustainable basis. Support your suggestions with economic theoretical frame. (9)

(b) Discuss the issues and challenges in managing receivables and payables of a MNC. The payables and receivables of four subsidiaries of ABC Co. are given as follows, (in INR, Crores)