PVP 12

Code: **BA4T6F**

II MBA - II Semester - Regular Examinations JUNE 2015

INTERNATIONAL FINANCIAL MANAGEMENT

Duration: 3 hours | Max. Marks: 70 M

SECTION-A

1. Answer any FIVE of the following: 5 x 2 = 10 M

a) Foreign exchange risk
b) International credit market
c) Libor
d) Forward rate
e) International stock market
f) Bretton woods
g) GATT
h) Adjusted present value

SECTION – B

Answer the following: 5 x 10 = 50 M

2. a) Explain the regulation in EXIM policy and its application in financial market.

OR

b) Describe the Balance of Payments (BOP) and its international economic linkages

3. a) Discuss the nature and scope of international financial management by a multinational firm.

OR

b) There is a conflict between the proponents of fixed rate and floating rate currency regimes. In your opinion which should be preferred and why?

4. a) How to optimize cash management system and also explain its necessity?

OR

b) What is the intuition behind the NPV capital budgeting framework?

5. a) In the Modigliani-Miller equation, why is the market value of the levered firm greater than the market value of an equivalent unlevered firm?

OR

b) Explain the Capital Asset Pricing Model (CAPM) in two country context.

6. a) How can inflation interest rate and exchange rate affect purchasing power parity in international market?

OR

b) What you understand by Euro-bond? Explain the different kinds of Euro-bond.

SECTION – C

7. Case Study **1 x 10 = 10 M**

While you were visiting London, you purchased a Jaguar for £35,000, payable in three months. You have enough cash at your bank in Fargo, which pays 0.35% per month, compounded monthly, to pay for the car. The current spot exchange rate is \$1.45/£ and the three-month forward exchange rate is \$1.40/£. In London, the money market interest rate is 2.0% for a three-month investment (the rate is not annual). You have two alternatives to consider:

a. Keep the funds at your bank in Fargo and buy £35,000 forward.

b. Buy a certain pound amount at the spot rate today and invest in the UK for three months so that maturity value would cover the payment you need to make for your Jaguar.

(i) Which method would you prefer? Why? Show your work.