

Code: **BA4T6F**

II MBA - II Semester - Regular Examinations - MAY 2016

INTERNATIONAL FINANCIAL MANAGEMENT

Duration: 3 hours

Max. Marks: 70 M

SECTION-A

1. Write short notes on any FIVE of the following: $5 \times 2 = 10 \text{ M}$

- a) Exchange Rates.
- b) SWAP.
- c) How do you compute the forward rate differentials?
- d) What is cross rate how is it computed?
- e) Hedging
- f) Balance of Payments.
- g) Euro bond market.
- h) Bond financing.

SECTION – B

Answer the following:

$5 \times 10 = 50 \text{ M}$

2. a) Write the scope of International financial management.

(OR)

b) Describe the EXIM policy regulations & Guidelines.

3. a) How has the IMF acquired its current gold holding prior to the second amendment?

(OR)

b) Write the changing face of EMU.

4. a) Write the factors influencing Exchange rate.

(OR)

b) Explain about the Purchasing power parity.

5. a) How are transactions finalized in the market for currency futures?

(OR)

b) Write the advantages & disadvantages of Euro Credit.

6. a) How do you compute the cash flow in international capital Budgeting?

(OR)

b) How can a centralized cash management system be beneficial to the MNC?

SECTION – C

7. Case Study

1 x 10 = 10 M

On February 28, 2006, President Jose Sarney of Brazil announced the Plano Cruzado. At the time, Brazilian inflation was running at an annualized rate of more than 400%. The plan slashed inflation by freezing prices and wages. The purposes of the plan were to impose “shock treatment” on the economy and break the cycle of “internal inflation” caused by high inflationary expectations. However, in a move that foreshadowed the splits that bedeviled the plan, workers were granted pay hikes of 8% and 15%,

just before the freeze, at the same time, Government spending went largely unchecked, and the public sector deficit-financed largely by printing more cruzados –grew to 4.5% of gross national product.

In November, the plan achieved its first inconvertible success: government parties swept the congressional and gubernatorial races. Price controls were eased after the election. However, the government found it politically impossible to remove subsidies to state industries because these industries formed the base for political power. Instead, large price hikes for state companies were granted by imposing huge increases in indirect taxes and tariffs in their products, and an attempt was made to disguise the effect of this increase on inflation by altering the basket of goods on which inflation was calculated. “They wanted me to tamper with inflation-simple as that”, commented the head of the National Statistical Office, who immediately resigned.

Questions:

1. What were the likely consequences for Brazil of controlling prices while gunning the money supply?
2. How did the Plano Cruzado affect Brazil’s huge trade surplus?
3. What are the likely price responses to the removal of price controls?