Reg. No. | | | | | | | | | |

MIBH 503

Third Semester M.B.A. (I.B.) Degree Examination, December 2018
INTERNATIONAL BUSINESS
Global Financial Management

Time : 3 Hours   Max. Marks : 70

Note : *Answer **all** Sections.*

SECTION – A

Note : Answer **any two** questions. **Each** question carries **ten** marks. Answer to the following question should **not** exceed **5** pages. **(2×10=20)**

1. Explain the scope and significance of Global Financial Management.
2. Discuss the techniques used for managing working capital in MNCs.
3. Explain in detail the various exchange rate theories.

SECTION – B

Note : Answer **any three** questions. **Each** question carries **twelve** marks. Answer to the following question should **not** exceed **6** pages. **(3×12=36)**

4. How are the exchange rates determined in a controlled market ? What are the factors responsible for exchange rate fluctuation ? Explain.
5. Explain the roles of various international financing institutions in financing foreign projects.
6. Convert the following rates into outright rates and indicate their spreads.

	Spot	**1-Month**	**3-Month**	**6-Month**
Rs./$	35.6300/25	20/25	25/35	30/40
Rs./£	55.2200/35	40/30	50/35	55/42
Rs./DM	23.9000/30	30/25	40/60	45/65

Calculate premium or discount from the Rupee-Dollar rates.

P.T.O.

7. a) Define futures contract. Explain the functions of futures market.

   b) On Monday morning, an investor takes a long position in a pound futures contract that matures on Wednesday afternoon. The agreed-upon price is $1.79 for £ 71,250. At the close of trading on Monday, the futures price has risen to $1.81. At Tuesday close, the price rises further to $1.83. At Wednesday close, the price falls to $ 1.75, and the contract matures. The investor takes delivery of the pounds at the prevailing price of $1 .75. Detail the daily settlement process. What will be the investor's profit (loss)?

8. Eastman Corporation has not tapped the public debt market because of a concern about a likely appreciation of the currency. It wishes to be a floating-rate dollar borrower, which it can be at LIBOR +2/9%. Kodak Corporation has a strong preference for fixed-rate debt, which it can raise at 5.75%. Kodak can raise fixed rate Eurodollars at LIBOR. Eastman can raise fixed rate at 5% coupon rate. Which is the range of possible cost savings to square from in a currency swap for both the parties ?

SECTION – C

Note : This section is **compulsory**. It carries **fourteen** marks. **(1×14=14)**

9. Klien Corporation presently has no existing business in France but is considering the establishment of a subsidiary there. The following information is given to assess this project :

   - The initial investment required is FF 70 million. The existing spot rate is $0.20, the initial investment in dollars is $ 12 million. In addition to the FF 70 million initial investment on plant and equipment, FF 10 million is needed for working capital and will be borrowed by the subsidiary from a French bank. The French subsidiary of Klien will pay interest only on the loan each year at an interest rate of 10%.

   The loan principle is to be paid in 10 years

   - The project will be terminated at the end of year 3, when the subsidiary will be sold.

- The price, demand and variable cost of the product in France are as follows :

Year	Price	Demand	Variable Cost
1	FF 650	40,000 units	FF 30
2	FF 700	50,000 units	FF 35
3	FF 750	60,000 units	FF 40

- The fixed costs are estimated to be FF 7 million per year.
- The exchange rate of French Franc is expected to be \$ 0.22 at the end of year one, \$0.25 at the end of year two and \$0.28 at the end of the year three.
- The French government will impose a withholding tax of 10% on earnings remitted by the subsidiary. The US government will allow a tax credit on remitted earnings and will not impose any additional taxes.
- All the cash flow received by the subsidiary are to be sent to the parent at the end of each year. The subsidiary will use its working capital to support ongoing operations.
- The plant and equipment are depreciated over 10 years, using the straight-line depreciation method. Since the plant and equipment are initially valued at FF 70 million, the annual depreciation expense is FF 7 million.
- In three years the subsidiary is to be sold. Klien plans to let the acquiring firm assume the existing French loan. The working capital will not be liquidated, but will be used by the acquiring firm.
- The required rate of return on this project is 15%.

Determine the Net Present Value of this project. Should Klien accept this project ?