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Reg. No.

IV Semester M.B.A. (Day & Evening) Degree Examination,

November/December-2025

MANAGEMENT

International Financial Management

(CBCS Scheme 2019 Onwards)

Time : 3 Hours **Maximum Marks : 70**

SECTION - A

Answer any Five of the following questions. Each question carries 5 marks.

(5×5=25)

1. Explain the concept of BOP surplus and deficit.

2. Khanna converts 70,000 USD into Euros at an exchange rate of Euro/USD = 1.16.When the currency rate rises to Euro/USD = 1.89, he changes his money back into USD. How much money did Khanna make from his currency trade?

3. Elucidate the concept of international Fisher's Effect.

4. A foreign exchange dealer observes the following quoted rates:

   1 CAD= 0.71 USD
   1 NZD = 0.58 USD
   1 CAD = 3.02 NZD

   a) Is a triangular-arbitrage opportunity present?

   b) If yes, show the arbitrage trading sequence (using USD as the starting currency) and calculate the profit if you start with USD 1,500,000.

   Assume no transaction costs, no bid/ask spread, and immediate execution at the quoted rates .

5. The following exchange rates are quoted:

   INR 87.80 - 88.30 per USD
   INR 102.00- 103.50 per EUR
   Find the bid and ask rates for USD per EUR (USD/EUR).
   CNY 4.63-4.73 per AUD
   CNY 8.27- 8.40 per EUR
   Find the bid and ask rates for AUD per EUR (AUD/EUR).

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6. Westside Corporation (United States) will receive 500,000 GBP in 180 days.
Which hedge is better: a forward hedge or a money-market hedge? Substantiate using estimated USD receipts from each hedge given:

180-day US interest rate = 9% p.a.
180-day UK (GBP) interest rate= 10% p.a.
180-day forward rate GBP/USD = 1.33 (that is, 1 GBP = 1.33 USD)
Spot rate GBP/USD = 1.31 (that is, 1 GBP = 1.31 USD)
Assumptions: interest rates quoted are nominal annual rates, simple money-market convention; use a 360-day basis so the 180-day period= 0.5 year. No transaction costs or bid/ask spreads are included.

7. Agro Products is the Canadian affiliates of US manufacturing company. Its balance sheet, in thousands of Canadian dollars, for January 1, 20x7 is shown as below. The January 1, 2025, exchange rate was CAD 1.6 per USD.

Agro Products Balance sheet in CAD

Assets (in CAD)		Liabilities and Net Worth(in CAD)	
Cash	1,00,000	Current Liabilities	60,000
Accounts receivable	2,20,000	Long term debt	1,60,000
Inventory	3,20,000	Capital stock	6,20,000
Net Plant and Equipment	2,00,000		
	8,40,000		**8,40,000**

a) Determine Agro Products accounting exposure on January 1. 20x8, using the current rate method/monetary and non-monetary method.

b) Calculate Agro products contribution to its parent's accounting loss if the exchange rate on December 31, 20x7 was CAD 1.8 per USD. Assume all accounts remain as they were at the beginning of the year.

SECTION - B

Answer any Three of the following questions. Each question carries 10 marks.
(3×10=30)

8. Discuss the concept of Exchange Rate Regimes. Explain how the choice of an exchange rate regime affects a country's monetary policy independence and its exposure to international shocks.

9. Interval International must make a EUR 800,000 payment in 3 months, USD 1,200,000 is available now and can be invested for 3 months. Given:

US deposit rate = 8% per annum
EUR deposit rate = 5% per annum
Spot rate= USD/EUR = 1.10 (1 EUR = 1.10 USD)
3-month forward rate= USD/EUR = 1.08

Assume simple money-market convention, 3 months= 0.25 years, and ignore transaction costs and bid/ask spreads.

Questions

a) Where should Company X invest for the better USD return: keep and invest USD, or convert to EUR, invest, and forward back to USD?

b) With the given interest rates and spot, what forward rate would produce equilibrium (i.e., make both strategies give the same USD result)?

10. Company X wishes to borrow U.S. dollars at a fixed rate of interest. Company Y wishes to borrow Euro at a fixed rate of interest. The amounts required by the two companies are roughly the same at the current exchange rate. The companies have been quoted the following interest rates which have been adjusted for the impact of taxes:

Company	**Euro(EUR)**	**Dollars(USD)**
Company X	8.0%	9.6%
Company Y	7.5%	9.0%

Design a swap that will net a bank, acting as intermediary, 30 basis points per annum.

11. An Indian company is considering investing in a project located in Japan. The project requires an initial investment of JPY 500 lakhs and is expected to generate the following annual post-tax cash flows:

Year	1	2	3	4
Cash Flow (JPY lakhs)	150	190	250	26

Additional information:

a) The expected inflation rate in Japan is 4% per annum.

b) The real interest rates in both India and Japan are equal and are expected to remain constant during the project's life.

c) The current spot exchange rate is JPY 1.74 per Indian Rupee.

d) The risk-free interest rate is 8% in Japan and 10% in India.

e) The required rate of return for Indian investors in rupee terms is 17%.

You are required to evaluate whether the project should be accepted or rejected, and calculate the Net Present Value (NPV) of the project in Indian Rupees.

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SECTION - C

12. Compulsory Case Study: **(1×15=15)**

Rebecca, a manufacturer, is based in Sydney, Australia and is owned by Concern, Inc., of the United States. Rebecca balance sheet at the current exchange rate of AUD 1.60 per USD. Is shown as below:

	Value in AUD	Value in USD(at 1.60)
Assets		
Cash and other securities	3,20,000	2,00,000
Accounts receivable	1,60,000	1,00,000
Inventory	6,40,000	4,00,000
Fixed Assets	4,80,000	3,00,000
Total Assets	16,00,000	10,00,000
Liabilities		
Accounts payable	3,20,000	2,00,000
Long-term debt	1,60,000	1,00,000
Net worth	11,20,000	7,00,000
Total liabilities	16,00,000	10,00,000

Note: The Historical Exchange rate is AUD 1.55/USD

Required

a) Identify Rebecca's exposed assets, exposed liabilities, and net exposed assets under:
Current/non-current method
Temporal method
Current rate method

b) Determine the impact of a 20% depreciation of the U.S. dollar (i.e., AUD appreciates by 20%) on Rebecca's consolidated balance sheets under each method.