

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A -IVth SEMESTER-EXAMINATION – MAY- 2012

Subject code: 840202

Date: 21/05/2012

Subject Name: International Finance (IF)

Time: 10:30 am – 01:30 pm

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

- Q.1** (a) Explain the importance and challenges of International Financial Management. **07**
- (b) Explain in detail – Triangular Arbitrage with example. What is a condition that will give rise to a triangular arbitrage opportunity? **07**

- Q.2** (a) What are the motivating factors behind internationalization of banks? **07**
- (b) The bank entered into an agreement with its customer on 15 March, for a forward purchase contract for SGD 4,000 delivery 1st July, at the rate of Rs.28.1400 per dollar covering itself by the forward sale at Rs.28.1600. on 15th April, the customer requests the bank to purchase a bill for SGD 4,000 under this contract. Calculate the amount that would be paid to the customer assuming the following rates in the inter-bank market on 15th April: **07**

Spot	SGD 1 = Rs. 28.1025/1075
Delivery July	28.6475/6550

Interest on outlay of funds at 12% and inflow of funds at 7%

OR

- (b) You had booked a forward purchase contract for US\$ 2,00,000 at Rs.49.5200 covering a Telegraphic Transfer(TT) remittance against a bill for collection and covered yourself in the local inter-bank market at Rs.49.5650. However, on the maturity date your customer requested you to extend contract by one month. Assuming the on-going market rates for US \$ are as under: **07**

Spot	US \$ 1 = 49.6925/7075
One month forward	600/700
Two month forward	900/1000
Three month forward	1200/1300

What will be the extension charges payable by your customer bearing in mind that you require an exchange margin of 0.08% for TT buying and 0.10% for TT selling?

- Q.3 (a)** What do you mean by Euro notes? Is there any difference between Euro commercial papers? Explain in detail. **07**
- (b)** On 17th April your exporter-customer requests you to book forward contract for fixed delivery 2 months in respect of a 30 days bill for Australian Dollar 40,000. **07**
- US dollars were quoted in the inter-bank market as under:

Spot	US\$ 1 = 48.6850/7275
Spot/May	4000/4200
Spot/June	7500/7700
Spot/July	1.0500/1.0700
Spot/August	1.4000/1.4200

At Singapore market Australian Dollar were quoted as follows:

Spot	US\$ 1 = AUD 1.9130/9140
One month	112/102
Two month	202/192
Three month	300/295
Four Months	385/378

Transit period is 25 days. Exchange margin is 0.10%. Calculate the rate to be quoted to the customer.

OR

- Q.3 (a)** Explain in detail – Depository Receipts. Its mechanism and advantages. **07**
- (b)** You sold Euro 10,00,000 value spot to your customer at Rs.48.3300 and covered yourself in London market on the same day when the exchange rates were as under: **07**

Spot Euro 1 = US\$0.9875/9890

Local interbank market rates for US \$ were:

Spot US \$ 1 = Rs. 48.7000/8500

Calculate the cover rate and ascertain the profit or loss in the transaction. Ignore brokerage on the interbank transaction.

- Q.4 (a)** How portfolio of investment optimized? **07**
- (b)** Calculate the portfolio return and risk using the following data: (Assume 70% investment on the existing portfolio and 30% on the new portfolio) **07**

Probability of occurrence of returns	Existing portfolio (%)	New portfolio (%)
0.30	10	8
0.30	7	12
0.40	13	7

OR

- Q.4 (a)** What are the techniques of hedging of transaction exposure? Explain in detail only Natural Hedge Technique of transaction exposure. **07**

- (b) Find out the transaction gain/loss on the basis of the following data pertaining to India's foreign trade. **07**

	US \$, million	Japanese Yen, million	British Pound,million
Import	1,250	650	800
Export	1,150	625	850
Pre-change rate	Rs. 45/\$	Rs. 0.40/Yen	Rs.70/Pound
Post-change rate	Rs.47/\$	Rs.0.41/Yen	Rs.68/Pound

- Q.5** (a) Explain Letter of Credit. How Does it operate? **07**
(b) Explain the management of international cash balances with the help of multilateral netting. **07**

OR

- Q.5** (a) What are the functions of the Export-Import Bank of India? Comment on its Performance. **07**
(b) What are the Advantages and Disadvantages of Letter of Credit? **07**
