Seat No.: __________ Enrolment No.____________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA Semester –III Examination Dec. - 2011

Subject code: 2830502 **Date: 15/12/2011**

Subject Name: International Finance

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)**	MNCs are gift of market imperfections. – Explain	**07**
	(B)	Explain the difference between devaluation and depreciation of currency	**07**
Q: 2	**(A)**	Describe the Balance of Payment identity and discuss its implication under the fixed and flexible exchange rate regime	**07**
	(B)	How international banks differ from domestic banks? Why banks are going for international banking services? Discuss the reasons with examples	**07**
		OR	
	(B)	Explain various types of international banking offices	**07**
Q:3	**(A)**	Discuss, in detail, the various strategies to manage operating exposure	**07**
	(B)	Explain the Competitive effect and conversion effect of exchange rate changes on the firm's operating flow	**07**
		OR	
	(A)	Discuss the alternative ways of hedging transaction exposure	**07**
	(B)	Discuss the various methods for foreign currency translation	**07**
Q:4	**(A)**	What is Letter of Credit? Explain its mechanism with diagram.	**07**
	(B)	Discuss the various types of letter of credit	**07**
		OR	
	(A)	Explain the following INCOTERMS. (a) FOB (b) CIF (c) DES	**07**
	(B)	Write a note on Export-Import Bank of India	**07**
Q:5	**(A)**	Assume you are a trader with Deutsche Bank. From the quote screen on your computer terminal, you notice that Dresdner Bank is quoting €1.0242/$1.00 and Credit Suisse is offering SF1.5030/$1.00. You learn that UBS is making a direct market between the Swiss franc and the euro, with a current €/SF quote of .6750. Show how you can make a triangular arbitrage profit by trading at these prices. (Ignore bid-ask spreads for this problem.) Assume you have $5,000,000 with which to conduct the arbitrage. What happens if you initially sell dollars for Swiss francs? What €/SF price will eliminate triangular arbitrage?	**07**

(B) While you were visiting London, you purchased a Jaguar for £35,000, payable in three months. You have enough cash at your bank in New York City, which pays 0.35% interest per month, compounding monthly, to pay for the car. Currently, the 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. There are two alternative ways of paying for your Jaguar. **07**

(a) Keep the funds at your bank in the U.S. and buy £35,000 forward.

(b) Buy a certain pound amount spot today and invest the amount in the U.K. for three months so that the maturity value becomes equal to £35,000.

Evaluate each payment method. Which method would you prefer? Why?

OR

(A) The current spot exchange rate is \$1.55/GBP and 3 months forward is \$1.50. On the basis of your experience and analysis you infer that the terminal spot exchange rate in 3 months will be \$1.52. You would like to buy or sell 1000 GBP. Answer the following question. **07**

1. State whether the dollar against sterling is traded at premium or discount in forward market? State the possible reason based on IRP. Also calculate the annualized premium or discount.
2. What action do you need to take to speculate in the forward market? What is expected dollar profit from speculation?
3. What would be your speculative profit if spot exchange rate actually turns out to be \$1.46?

(B) On 11/11/2011, your customer has presented to you at sight document for USD 11,00,000 under an irrevocable letter of credit. The letter of credit provides for reimbursement by the negotiation bank's own demand draft on the opening bank at New York. **07**

Assuming US \$/ Rupees are quoted in the local interbank market as under:

Spot	\$1 = Rs. 50.6525/6650
Spot/August	6000/5700
Spot/ September	1.000/0.9700
Spot/ October	1.4000/3900

Transit period for bill is 20 days what rate wills you quote to your customer provided you require an exchange margin of 0.15%

Also calculate and show the rupee amount payable to the customer.

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