


CMR INSTITUTE OF TECHNOLOGY		USN <input type="text"/>						 <small>CELEBRATING 25 YEARS</small> CMRIT <small>CMR INSTITUTE OF TECHNOLOGY, BENGALURU.</small> <small>ACCREDITED WITH A++ GRADE BY NAAC</small>	
Internal Assessment Test - III									
Sub:	Global Financial Management						Code:	22MBAFM403	
Date:	17-09-2024	Duration:	90	Max Marks:	50	Sem:	IV	Branch:	MBA
SET- III									
							Marks	OBE	
								CO	RBT
Part A - Answer Any Two Full Questions (2* 20 = 40 marks)									
1 (a)	<p>What is ADR?</p> <p>Answer: American Depository Receipts (ADR) are negotiable security instruments that are issued by a US bank that represent a specific number of shares in a foreign company that is traded in US financial markets.</p>						[03]	CO2	L1
(b)	<p>Explain the types of international equity markets.</p> <p>Answer:</p> <ol style="list-style-type: none"> Euro currency market Euro credit markets 						[07]	CO2	L2
(c)	<p>Discuss the concepts of global bonds and zero-coupon bonds.</p> <p>Answer:</p> <p>Global Bond Debt instruments that are issued simultaneously in several countries. Issued by large MNC</p> <p>Features</p> <ol style="list-style-type: none"> Carry high ratings Normally large in size Issued simultaneously in several countries Traded on home market. <p>Zero Coupon Bonds Sold at a lower price than the par value. These are usually long-term Periodic interest is not available Compounded interest will be payable at the time of maturity. It may be short-term or long-term (Short term less than a year, Long term 10 to 15 Years) Short term bonds are known as bills.</p>						[10]	CO2	L2
2 (a)	<p>JPY/USD rates are given below to calculate Forecasted Error</p> <p>Forecasted rate = 1.6543/1 Realized value = 1.5684/1</p> <p>Answer: 5.48%</p>						[03]	CO3	L3
(b)	<p>Discuss the exchange rate Equilibrium.</p> <p>Answer:</p>						[07]	CO3	L2

	Where the demand and supply are equal																											
(c)	<p>Calculate the forward rate from the given information</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Spot Rate</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>8%</td> </tr> <tr> <td>2</td> <td>10%</td> </tr> <tr> <td>3</td> <td>11%</td> </tr> <tr> <td>4</td> <td>9%</td> </tr> <tr> <td>5</td> <td>13%</td> </tr> </tbody> </table> <p>Answer</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Spot Rate</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>8%</td> </tr> <tr> <td>2</td> <td>12.04%</td> </tr> <tr> <td>3</td> <td>13.057%</td> </tr> <tr> <td>4</td> <td>3.509%</td> </tr> <tr> <td>5</td> <td>30.1129%</td> </tr> </tbody> </table>	Year	Spot Rate	1	8%	2	10%	3	11%	4	9%	5	13%	Year	Spot Rate	1	8%	2	12.04%	3	13.057%	4	3.509%	5	30.1129%	[10]	CO3	L3
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3 (a)	<p>What do you mean by leading and lagging?</p> <p>Answer: <u>Leading</u> Leading involves accelerating the timing of a payment or receipt to take advantage of favorable exchange rates or to avoid adverse movements. <u>Lagging</u> Lagging involves delaying the timing of a payment or receipt to take advantage of favorable exchange rates or to avoid adverse movements.</p>	[03]	CO4	L1																								
(b)	<table border="1"> <thead> <tr> <th>Quotation</th> <th>Bank 1</th> <th>Bank 2</th> </tr> </thead> <tbody> <tr> <td>Bid Prize of SGD</td> <td>0.3564</td> <td>0.4568</td> </tr> <tr> <td>Ask Price of SGD</td> <td>0.6123</td> <td>0.6654</td> </tr> </tbody> </table> <ol style="list-style-type: none"> Determine that whether the locational arbitrage is possible or not. Explain the steps for locational arbitrage, if locational arbitrage is possible. Calculate the profit of the arbitrage if \$1,000,000 are to be use. <p>Answer:</p> <ol style="list-style-type: none"> Yes Buy from Bank 1 and sell and bank 2 \$208600/- 	Quotation	Bank 1	Bank 2	Bid Prize of SGD	0.3564	0.4568	Ask Price of SGD	0.6123	0.6654	[07]	CO3	L3															
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(c)	<p>VRL Company has exported goods to a U.S. customer and expects to receive 50,000 USD in one year. The current exchange rate of USD1 = GBP1.10 as favorable and would like to lock it in since they think that the GBP may appreciate over the year ahead. The British company can borrow USD at 2% for</p>	[10]	CO4	L4																								

	<p>one year and can receive 2.5% per annum for British pound deposits. Give your suggestion regarding money market hedging</p> <p>Answer: PV of Dollar 50000 = 49019.6078 GBP of PV of the dollar = £53921.5686 Total Amount after 1 Year @ 2.5% = £55269.6078 Benefit is £1348.0392 Since it received £ 55,269.6078 for this U.S. dollar amount, it effectively locked in a one-year forward rate = £ 55,269.6078 / US\$50,000 or US\$1 = £1.1054</p>			
4	<p>Mr. Balu. is an exporter of furniture to Oman. They are exporting 200 pieces of furniture at a cost of 250OMR each and importing 200 units of material at 120OMR/unit, They incur other Fixed expenses of 10,00,000₹, Direct Labour 16,25,000₹, and Direct Expenses 8,58,000₹. At the time of entering into the contract, the exchange rate is 209.8256/OMR, at the time of export it is 207.5623/\$, while INR/USD at the time of order is 196.5684/OMR, while at the time of importing is 198.2356/OMR. If the price elasticity of goods is 2.25 what are the transactions and economics exposure?</p> <p>Answer: Transaction Exposure = 153667.4 (113165+40502.4) Economic Exposure: Price increases 2.725 so new price is 252.725 % of changes in price is 1.09% Changes in QD = 1.09 x 2.25 = 2.4525% , New QD = 194.9 (195) Impact in profit 1. Original profit = 2290638.4 2. Revised Profit = 2169317.46</p>	[10]	CO4	L3

Course Outcomes (COs)		PO1	PO2	PO3	PO4	PO5	PSO1	PSO2	PSO3	PSO4
CO1:	The student will have an understanding of the International Financial Environment.									
CO2:	The student will learn about the foreign exchange			1a,				1a,		

	market, participants, and transactions.			1b, 1c				1b, 1c		
CO3:	The student will be able to use derivatives in foreign exchange risk management				2a, 2b, 2c, 3b				2a, 2b, 2c, 3b	
CO4:	The student will be able to evaluate the Firm's Exposure to risk in the international environment and various theories associated with it.		3a, 3c		4					3a, 3c, 4

Cognitive level	KEYWORDS
L1 - Remember	list, define, tell, describe, recite, recall, identify, show, label, tabulate, quote, name, who, when, where, etc.
L2 - Understand	describe, explain, paraphrase, restate, associate, contrast, summarize, differentiate interpret, discuss
L3 - Apply	calculate, predict, apply, solve, illustrate, use, demonstrate, determine, model, experiment, show, examine, modify
L4 - Analyze	classify, outline, break down, categorize, analyze, diagram, illustrate, infer, select
L5 - Evaluate	asses, decide, choose, rank, grade, test, measure, defend, recommend, convince, select, judge, support, conclude, argue, justify, compare, summarize, evaluate
L6 - Create	design, formulate, build, invent, create, compose, generate, derive, modify, develop, integrate

PO1–Theoretical Knowledge; PO2–Foster Analytical and Critical Thinking Abilities for data based decision making; PO3– Develop Value Based Leadership; PO4 –Ability to Understand and communicate various business aspects to global; PO5 – Ability to lead themselves and others in the achievement of organizational goals contributing effectively to a team environment;
PSO1- Comprehend Contemporary features of Business Management Science and its administration
PSO2- Analyze and interpret the dynamic situations for making Business Management strategies
PSO3- Handle responsibility with the ethical values for all actions undertaken by them
PSO4- Adapt and focus on achieving the organizational goal and objectives with complete zeal and commitment.

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