



Fourth Semester MBA Degree Examination, June/July 2025
Global Financial Management

Max. Marks: 100

- Note: 1. Answer any FOUR full questions from Q.No.1 to Q.No.7.
 2. Question No. 8 is compulsory.
 3. M : Marks , L: Bloom's level , C: Course outcomes.

		M	L	C
Q.1	a. Why transaction exposure will emerge?	3	L1	CO4
	b. What is International Financial Management and how it different from domestic finance?	7	L2	CO1
	c. Briefly explain the foreign exchange theories.	10	L2	CO3
Q.2	a. Differentiate between Balance of Payment and Balance of Trade.	3	L4	CO1
	b. On the same date that the DM spot was quoted \$0.40 in New York, the price of the pound sterling was quoted \$ 1.80 i) What would you expect the price of the pound to be in Germany? ii) If the pound were quoted in Frankfurt at DM 4.40/£, what would you do to profit from the situation?	7	L3	CO2
	c. Are there any arbitrage gains possible from the data given below? Assume there are no transaction costs. Rs. 55.500 = £ 1 in London Rs. 35.625 = \$ 1 in Delhi \$ 1.5820 = £ 1 in New York	10	L3	CO3
Q.3	a. How direct quota is different from indirect quota?	3	L2	CO3
	b. The US inflation rate is expected to average about 4% annually, while the Indian rate of inflation is expected to average about 12% annually. If the current spot rate for the rupee is \$ 0.0285, what is the expected spot rate according.	7	L3	CO3
	c. Company A, a low-rated firm, desires a fixed-rate, long-term loan. Company A presently has access to floating interest rate funds at a margin of 2.5% over LIBOR. Its direct borrowing cost is 15% in the fixed-rate bond market. In contrast, company B, which prefers a floating-rat loan, has access to fixed-rate funds in the Eurodollar bond market at 12% and floating-rate funds at LIBOR + ½%. i) How can A and B use a swap to advantages? ii) Suppose they split cost savings. How much would A pay for its fixed-rate funds? How much would B for its floating-rate funds?	10	L3	CO3

Q.4	a. List out the different types of depository receipts?	3	L1	CO1																												
	b. Discuss the different methods to manage translation exposures.	7	L2	CO4																												
	c. A quotation for the US \$ against rupee, given by a trade in New Delhi : <table border="1" style="margin-left: 20px;"> <tr> <td>Spot</td> <td>1 Month</td> <td>3 Month</td> <td>6 Month</td> </tr> <tr> <td>Rs. 32.1010 – Rs. 32.1100</td> <td>225/275</td> <td>300/350</td> <td>375/455</td> </tr> </table> Convert above quotation into outright rates and indicate its spread. Also calculated forward premium or forward discount percentage.	Spot	1 Month	3 Month	6 Month	Rs. 32.1010 – Rs. 32.1100	225/275	300/350	375/455	10	L3	CO2																				
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Q.5	a. Who are the participants of foreign exchange market?	3	L1	CO2																												
	b. Discuss the risk or challenges of international finance?	7	L2	CO1																												
	c. AB Ltd, is the Indian affiliate of a US sports manufacture. AV Ltd manufactures items which are sold primarily in the United States and Europe. AV's balance sheet in thousands of rupees as of march 31 is as follows : <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Assets</th> <th>Amount</th> <th>Liabilities and Net worth</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Cash</td> <td>6,000</td> <td>Account Payable</td> <td>3,500</td> </tr> <tr> <td>Account receivables</td> <td>4,500</td> <td>Short-term bank loan</td> <td>1,500</td> </tr> <tr> <td>Inventory</td> <td>4,500</td> <td>Long-term loan</td> <td>4,000</td> </tr> <tr> <td>Plant and equipment</td> <td>10,000</td> <td>Capital stock</td> <td>10,000</td> </tr> <tr> <td></td> <td></td> <td>Retained Earning</td> <td>6,000</td> </tr> <tr> <td>Total</td> <td>25,000</td> <td>Total</td> <td>25,000</td> </tr> </tbody> </table> Exchange rates for translating the balance sheet into US dollars are : i) Rs.35/\$: Historic exchange rate, at which plant and equipment, long-term load and common stock were acquired or issued. ii) Rs. 40/\$: March 31 exchange rate. This was also the rate at which inventory was acquired. iii) Rs. 42/\$: April 1 exchange rate, after devaluation of 20% Assuming no change in balance sheet accounts between March 31 st and April 1 st , calculate accounting gain or loss by the current rate method.	Assets	Amount	Liabilities and Net worth	Amount	Cash	6,000	Account Payable	3,500	Account receivables	4,500	Short-term bank loan	1,500	Inventory	4,500	Long-term loan	4,000	Plant and equipment	10,000	Capital stock	10,000			Retained Earning	6,000	Total	25,000	Total	25,000	10	L3	CO3
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Q.6	a. What is zero coupon bonds?	3	L1	CO1																												
	b. What is BOP disequilibrium? Elaborate the causes of disequilibrium?	7	L2	CO1																												
	c. What is an international financial market? Briefly explain functions of international financial market?	10	L2	CO2																												
Q.7	a. What is exchange rate equilibrium?	3	L1	CO1																												

	<p>b. Assume the following information :</p> <p>90 day US interest rate = 4%</p> <p>90 days Canada interest rate = 3%</p> <p>90 day forward rate of Canadian dollar = \$0.400</p> <p>Spot rate of Canadian dollar = \$0.405</p> <p>Assume that Jason Co. in the United States will need 400,000 C\$ in 90 days. The company wishes to hedge this payables position. Would it be better for the company to use forward hedge or money market hedge? Calculate estimated costs for each type of hedge.</p>	7	L3	CO3																									
	<p>c. Set out below is a table Cross Rates</p> <table border="1" data-bbox="368 506 1092 684"> <thead> <tr> <th></th> <th>Yen</th> <th>Dollar</th> <th>French Franc</th> <th>Pound Sterling</th> </tr> </thead> <tbody> <tr> <td>Tokyo</td> <td>---</td> <td>2.2812</td> <td>0.4712</td> <td>4.0218</td> </tr> <tr> <td>New York</td> <td>0.4421</td> <td>---</td> <td>0.2110</td> <td>1.8000</td> </tr> <tr> <td>Paris</td> <td>2.0949</td> <td>4.7393</td> <td>---</td> <td>8.4301</td> </tr> <tr> <td>London</td> <td>4.0207</td> <td>1.7775</td> <td>8.4232</td> <td>---</td> </tr> </tbody> </table> <p>For Tokyo, New York and Paris, all quotes are direct, for London, all quotes are indirect.</p> <p>If all the above quotes were available at the same time and assuming no transaction costs, how might a trader take advantages of the situation?</p>		Yen	Dollar	French Franc	Pound Sterling	Tokyo	---	2.2812	0.4712	4.0218	New York	0.4421	---	0.2110	1.8000	Paris	2.0949	4.7393	---	8.4301	London	4.0207	1.7775	8.4232	---	10	L3	CO2
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Q.8	<p>Case Study</p> <p>Vignesh Ventures a Mumbai based company is considering a project to be set up in the US. The Project will entail an initial outlay of \$ 200 million and is expected to generate the following cash flow over its five-year life :</p> <table border="1" data-bbox="448 1104 1032 1178"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>Cash flow (in Million \$)</td> <td>50</td> <td>70</td> <td>90</td> <td>105</td> <td>80</td> </tr> </tbody> </table> <p>The current spot exchange rate is Rs. 46 per dollar, the risk-free rate in India is 11% and the risk-free rate in the US is 6%. And its required return is 18%. Determine the NPV of the project using</p> <ol style="list-style-type: none"> Foreign currency approach Home currency approach 	Year	1	2	3	4	5	Cash flow (in Million \$)	50	70	90	105	80	20	L3	CO4													
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