Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–IV • EXAMINATION – SUMMER • 2014

Subject Code: 840202 **Date: 13-05-2015**

Subject Name: International Finance (IF)

Time: 10.30 am - 13.30 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)**	"International financial management is complex compared to domestic financial management." – Explain.	**07**
	(b)	Discuss: Classical Approach and Elasticity Approach to balance of payment adjustment.	**07**
Q.2	**(a)**	Explain with suitable example hedging in a forward market.	**07**
	(b)	1) The value of rupee vis-a-vis US dollar for the first nine days of January 2005 is respectively as follows: Rs. 45.11, 45.15, 45.15, 45.10, 45.30, 45.39, 45.50 and 45.41. Find a forecast of the exchange rate for the 10th day. 2) If the average exchange rate in the first quarter of 2005 is 45.10 / US $ with India having a positive interest rate differential of 2.30 per cent and a positive inflation rate differential of 3.10 per cent over that in the USA, and if sensitivity of rupee to interest rate and inflation rate differential is 50 per cent, find a forecast of the exchange rate during the second quarter assuming a constant term as 0.02 .	**07**
		OR	
	(b)	1) The technical forecast, fundamental forecast and the market-based forecast of rupee vis-à-vis US dollar for the second quarter of 2005 are respectively as follows: Rs. 45.54, Rs. 47.22 and Rs. 49.61. If the forecaster assigns 30 per cent, 30 percent and 40 per cent weight respectively to above forecast, what would the weighted average of the forecasts, often known as mixed forecast? 2) If forecast of exchange rate is 47.67, but the actual spot rate is Rs. 47.50, what would be size of forecast error?	**07**
Q.3	**(a)**	Should International bank be controlled? Why and how?	**07**
	(b)	How is speculation done in forward market?	**07**
		OR	
Q.3	**(a)**	Briefly explain: 1) Foreign Bond 2) Euro Bond 3) Cocktail Bond	
	(b)	Explain cover deals made under Interbank Deals	**07**
Q.4	**(a)**	Explain in detail – Depositary Receipt and its mechanism and advantages.	**07**
	(b)	The risk-free interest rate is 8 per cent. The rate of return and the risk in terms of standard deviation in India and some foreign countries are respectively as follows: India: 11% and 3. 16 Australia : 10% and 4.05 UK : 9% and 1.80 USA : 14 % and 5.40 Find the country/ countries where an Indian investor should diversify its investment.	**07**

OR

Q.4 **(a)** Explain the benefit from FDI to the host and the home countries. **07**

(b) Assume the following information: **07**

90-day U.S. interest rate = 4%

90-day Malaysian interest rate = 3%

90-day forward rate of Malaysian ringgit = $.400

Spot rate of Malaysian ringgit = $.404

Assume that the Santa Barbara Co. in the United States will need 300,000 ringgit in 90 days. It wishes to hedge this payables position. Would it be better off using a forward hedge or a money market hedge? Substantiate your answer with estimated costs for each type of hedge.

Q.5 **(a)** Explain meaning and operations of letter of credit. **07**

(b) Write a note on: Functions of Export – Import bank of India. **07**

OR

Q.5 **(a)** Explain: Types of letter of credit. **07**

(b) Explain: Export credit insurance. **07**

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