OR

(b) What do you understand by Currency Future ? How is it different from currency option ? Give Examples. (10)

(c) Explain briefly the various modes of International Portfolio Investment. (10)

5. Write short notes on any **two** :

(i) International Diversification

(ii) Political Risk

(iii) The Bid-ask spread and its determination

(iv) Direct and Indirect Quote of exchange rate (20)

[This question paper contains 4 printed pages.]

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Your Roll No. ....

M.COM. : SEMESTER – IV (NC) **F**

Paper No. – MJ-404

International Financial Management

Time : 3 Hours *Maximum Marks : 100*

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt **all** *parts of the question together.*

1. In what respects does international finance differ from domestic finance ? What are the benefits of studying international finance ? (20)

OR

What is cross currency matrix ? What are its uses ? Given the following exchange rate of the currencies (Broker's quotes), compute the Indirect and Cross rates.

GBP/USD Spot : 2.030

USD/JPY Spot : 98.1538

USD/CAD Spot : 1.1800 (10,10)

2. Explain the different modes of payment in international trade. (20)

OR

What do you mean by transfer pricing ? How are transfer prices set ? (20)

3. (a) A multinational company is planning to set up a manufacturing plant in India involving an initial outlay of Rs. 40 million. The plant is expected to have a useful life of 5 years and a salvage value of Rs. 8 million. The MNC follows SLM (Straight Line Method) of depreciation. To support additional level of activity, investment would require additional working capital of Rs. 4 million.

Since the cost of production is lower in India, the variable cost of production and sales would be lower, i.e. Rs. 20 per unit. Additional fixed cost per annum is estimated at Rs. 2 million. Further the forecasted selling price is lower i.e. Rs. 60 per

unit to sell 500,000 units. The MNC is subjected to 40% tax rate and its cost of capital is 15% p.a.

It is forecasted that Rupee will depreciate/devalue in relation to USD @ 3% p.a. after the first year, with an initial exchange rate of Rs. 40/\$. The following assumption have been made that US parent MNC has not been exporting to India and full repatriation every year with no withholding taxes and full tax credit being available in USA. On the basis of above information, advice the MNC regarding the financial viability of the proposal. (20)

OR

(b) What is meant by Greenfield investment ? How is it different from Cross border Merger and Acquisitions ? (10)

(c) Explain the APV (Adjusted Present Value) technique of International Capital Budgeting with an example. (10)

4. (a) Distinguish between Transaction Exposure and Translation Exposure. How are these exposures managed ? Explain. (20)