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Roll No.....

M.COM: Semester IV/2015

Paper No. 7112

Subject: International Financial Management

S.No. **7744**
Time: 3 hours

Max Marks: 100

E

Attempt all questions. All questions carry equal marks.
Make suitable assumptions wherever necessary.

1. (a) What are alternative exchange rate systems? Highlight the difference between fixed exchange rate and floating exchange rate system?
(b) Explain international liquidity problem. What is the role of IMF in managing the liquidity problem? Discuss.

OR

(4+6, 5+5)

- (c) What are the various factors that influence foreign exchange rate? Explain briefly.
(d) How are bid and ask rates of foreign exchange formed? Suppose RBI reference rate Spot (INR/USD) is 55.65. If one way exchange margin to be charged by authorised dealer is 0.4%. Find out the bid, ask, spread and cost of transaction.

(10, 2x5 = 10)

2. (a) ABC Ltd is the wholly owned UK subsidiary of XYZ Inc. of USA. The functional currency for ABC is the pound sterling which currently sells at GBP/USD 1.5. The reporting currency for XYZ is the USA dollar. Non-consolidated balance sheets of both ABC Ltd. and XYZ Ltd., in thousands, are as follows:

| Assets | XYZ Inc. | ABC Ltd. |
|-------------------------|-----------|----------|
| Cash | \$ 8,000 | £ 2,000 |
| Accounts receivable | \$ 10,000 | £ 4,000 |
| Inventory | \$ 8,000 | £ 2,000 |
| Net plant and equipment | \$ 10,000 | £ 6,000 |
| Investment | \$ 4,500 | |
| Total | \$ 40,500 | £ 14,000 |

| Liabilities | XYZ Inc. | ABC Ltd. |
|---------------------|-----------|----------|
| Current liabilities | \$ 22,000 | £ 4,000 |
| 5-year term loan | | £ 4,000 |
| Capital stock | \$ 9,000 | £ 2,000 |
| Retained earnings | \$ 9,500 | £ 4,000 |
| Total | \$ 40,500 | £ 14,000 |

- i) Prepare a consolidated balance sheet for ABC Ltd. and XYZ Ltd
ii) What is ABC Ltd's accounting exposure in dollar? Use the current rate method of calculation.
(b) What is Euro money? How is it created? (8+6, 3+3)

OR

Contd. P. 2