K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
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PGDM-Exec 2017-18; Batch 7; Tri V

International Finance

(End-Trimester Examination)

Max marks 50 — 20th December 2018
Duration: 3 Hrs

1. Answer **any four** questions from Section A
2. Case studies in Section B are **compulsory**

Section A (4*10=40 marks)

1. Explain with suitable examples the following concepts with respect to a multi-national firm:
   a) Investment decision
   b) Capital Structure decision
   c) Dividend decision
   d) Political risk
   e) Exchange rate risk
2. With reference to India's balance of payments specify the following transactions accounting in terms of credit and debit to the current, capital and reserves accounts:

a) Import of computers Rs 50,000
b) Export of wheat Rs 60,000
c) Short-term claims Rs 50,000
d) Import of crude oil Rs 60,000
e) Commercial borrowings Rs 45,000
f) Foreign exchange reserves Rs 45,000
g) Remittances Rs 55,000
h) Transfers government Rs 45,000
i) Private sector transfers Rs 55,000
j) An Indian firm provides software to German firm worth Rs 55,000

3. How is the exchange rate determined under the Gold Standard? How the automatic adjustment of balance of payments disequilibrium was taken care? What are the limitations of Gold Standard?

4. Distinguish between Indian foreign exchange spot and forward market transactions with suitable examples. Who are the participants in the foreign exchange market? What are their motives?
5. Explain the concept of managed float. What are the advantages of currency pegging? What is the nature of India's exchange rate system?

Section B (5*2=10 marks)

Case Study-1 – The Rise of India's Drug Industry

During the earlier years Indian drug industry was known to produce low cost generic drugs and market in the developed countries. Since Indian drug industry use to make copies of patented products since it did not have patents and was prohibited to market the products. Foreign companies were also not interested to invest or partner with Indian companies due to the issue of protection of intellectual property rights. However, in 2005 India signed an agreement with WTO that brought into compliance of IPRs. This encouraged foreign companies to partner and invest in Indian pharmaceutical sector that led to a dramatic growth close to $30 billion in 2012. Exports also increased from $1 bln in the year 2000 to $14 billion in the year 2012. This growth was possible as western companies outsourced manufacturing and packaging work. Low wages, educated workforce, use of English were added factors that increased business in this sector.

Local startups along with the Universities creating talent pool helped Indian pharmaceutical industry to expand.

The US FDA also has set up offices and issued approvals to around 900 plants in India. For Western enterprises, it is the low cost manufacturing and outsourcing to India and protected earnings of US Companies. This also benefitted US consumers in terms of low pharmaceutical prices, low insurance costs and low out of pocket expenses. But this resulted in loss of local jobs in manufacturing sector by 5% during 2008-2010.

Discussion questions

1. Analyze the above case critically.
2. What is the importance of pharmaceutical exports and imports in Indian context?
3. How might US pharmaceutical companies and US consumers benefit from the rise of Indian pharmaceutical Industry?
4. Who might have lost out as a result of the recent rise of the Indian pharmaceutical industry?
5. Do the benefits from trade with Indian pharmaceutical sector outweigh the losses?

Case Study 2 –Airbus and the Euro

Airbus in the year 2003 delivered more aircrafts (305) compared to its rival Boeing (281). Due to the volatility in Dollar-Euro exchange rate that fell by 50% between 2002-2009, Airbus's cost had increased that led to squeeze in profits. The company was hedged fully and partly during 2005 and 2006. The Company had two options to increase the prices or reduce costs.It anticipated weak Dollar and took measures to reduce costs. It gave a larger share to suppliers and shifted some of its operations to US. It also pushed European based suppliers to price in Dollars. Further the CEO announced that it is ready to shift assembling to US if it wins the contracts.

Discussion questions

1. Explain concept of hedging.
2. How did Airbus manage its currency exposure in the year 2005?
3. What measures it took on production side to deal with the volatility in Euro Dollar exchange rate?
4. How was the 50% drop in Dollar against Euro between 2002 to 2009 impacted Airbus?
5. Discuss the impact of exchange rate changes on company's costs and profitability.

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