K J SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH
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PGDM (Financial Services) Trimester. V. Batch: 2016-18
International Finance
(End Term Examination)

Max. Marks: 50
Duration: 3 Hrs.

Instructions January 3, 2018

(1) Question **No.1 is compulsory**, which is of **8 + 3 +3 = 14 marks.**
(2) Attempt any **THREE** questions from the rest, which are of **12 marks** each.
(3) Answer each new question on a fresh page.
(4) Write all sub question of a main question together.
(5) Don't write extra answers. Only first four will be assessed.
(6) If these instructions are ignored, appropriate marks will be reduced.

Q.1 (a) XYZ Ltd, an Indian company, is planning to start a subsidiary in USA to produce and sale engineering equipment. Following information is collected from the company.

It is planning to invest USD 1,40,000. The plant will be operational within one year and it will have production capacity of 4000 units per year. The life of the plant is estimated at 5 years and there will be no scrap value at the end of this period.

The company is expected to sell its product in USA at a price of USD 20, per unit. Operating cost which is a variable cost per unit is USD 8, and the fixed cost is USD 1000. The expected return on investment by the company is 12 %. The depreciation is on fixed installment basis @ 20% p.a. The tax rate in USA is 25 %.

All profits can be repatriated without any withholding tax and exchange rate between USD and INR is Rs.65 per USD which is assumed to be constant.

Calculate the NPV of the project.

	Year 1	Year 2	Year 3	Year 4	Year 5
PV factor @12 %	0.893	0.797	0.712	0.636	0.567
P V factor Annuity @ 12 % 3.605					

Country	**Price Index in 2016**	**Price Index in 2017**
India	100	130
Germany	100	120
Nominal exchange rate is INR 67 / Euro		

Q.1(b)

Find out the "real exchange rate" in 2017 between INR and Euro based on the above information.

Country	**Expected inflation in two years**
India	5 %
UK	2 %
Initial exchange rate is INR 82 = GBP 1	

Q.1 (c)

Calculate the exchange rate between INR and GBP after two years using PPP relative version.

Q.2 What is fundamental disequilibrium in Balance of Payment? Suggest various measures to correct such disequilibrium.

Q.3 (a) Explain reasons for difference in the cost of capital in different countries of the world.

(b) What are the three most important factors to be considered while estimating cash flow in international capital budgeting?

Q.4 (a) Explain the features of Euro Bond market.

(b) Explain External Commercial Borrowings and its features with reference to India.

Q.5 Write short notes on any **TWO** of the following

(a) International Gold Standard

(b) Drivers of FDI in emerging economies

(c) Beggar thy neighbor policy

End of the paper