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MFM- IV; Semester 2017-20

International Finance

(End- Semester Examination)

Date:8th April 2019

Max marks 50 Duration: 3 Hrs

Note: Answer any five questions (5*10). All questions carry equal marks.
Restrict each of your answers to around 40 lines.

Q1. What impact would the following events have on India's balance of payments? Your response should include effect in terms of positive/negative/no impact and also which account (current/capital/reserves) will this line item get reflected as debit/credit/inflow/outflow.

a) India attracts ECB worth 2 bln dollars from US
b) China exports telecom equipment to Europe worth 5 bln.
c) Indian exports to USA reduced by 1 mln dollars due to trade war.
d) Germany imports software services from India worth 5 bln dollars
e) Euro appreciates with respect to INR. This impacts 3 mln Euros fall in Indian exports
f) American investor sold ADRs worth 2000 USD
g) Indian MNC bought European technology firm for 5 bln Euros
h) An Indian parent remits USD 80,000 towards payment of tuition fee for his daughter.
i) Swiss based subsidiary repatriates profits to the tune of 800 mln USD to Indian Parent Company
j) India exports onions worth 700 USD to Bangladesh.

Q2.Given the following information calculate forward rates using IRP theory

a) USD/SEK 9.2426
USD interest rate 2.50%

SEK interest rate -0.25%
Compute three month forward USD/SEK

b) EUR/CAD 6 month forward 1.5146
EUR interest rate 0%
CAD interest rate 1.75%
Compute Spot EUR/CAD

c) GBP/USD 1.3175-1.3180
USD interest rate 2.50%
GBP interest rate 0.75%
Calculate GBP/USD 3 month forward

d) USD/CAD 73 days forward 1.3395
CAD interest rate 1.75%
USD interest rate 2.50%
Compute USD/CAD

e) Answer the following questions using purchasing power parity
- A basket of goods produced in UK costs 1,800 pounds and 2,400 euros in France. What is the exchange rate between pound and euro?
- Assume actual exchange rate is €1.1250/£ and expected inflation in Eurozone and Britain are 4% and 6% respectively. Calculate exchange rate after 6 months, 1 year and 2 years, if inflation rates remain same.

Q3. Compute Cross-rate calculations.

A) GBP/USD = 1.3180-1.3185
GBP/EUR = 1.1250-1.1255
Calculate EUR/USD quotation

B) USD/INR = 68.90-68.95
GBP/USD = 1.3180-1.3185
Calculate GBP/INR quotation

C) CAD/USD = 0.7465-0.7470
USD/INR = 68.90-68.95

Calculate CAD/INR quotation

D) USD/CAD = 1.3395-1.3400
EUR/USD = 1.1250-1.1255
Calculate EUR/CAD quotation

Compute forward rates from the given information.

i) Spot USD/SEK 9.2449
USD interest rate = 2.50% p.a.
SEK interest rate = 0.25% p.a.
Calculate six month forward USD/SEK rate

ii) 6 month forward EUR/CAD 1.3395
EUR interest rate = 0.25% p.a.
CAD interest rate =1.75% p.a.
Calculate spot EUR/CAD rate

iii) Spot GBP/USD 1.3180
USD interest rate = 2.50% p.a.
GBP interest rate = 0.75% p.a.
Calculate 6 month forward GBP/USD rate

Q4. Write Short notes on:

a) Eurozone Crisis: The Options
b) The Ghost of Dollarization in Zimbabwe
c) Swiss Franc Pegging – Free float to Intervention

Q5 Discuss the following issues in the context of country risk rating.

a)Politics and Economics of Credit rating: Italy and India

b) Indirect Expropriation – Matalclad in Mexico

c) Cost of Political Orientation in Business – Yukos Oil Company: Paying Heavy price for Political Orientation.

Q6. Explain the following concepts in practice relating to exchange rate arrangements

a) Explain Brunei's Currency Board arrangement of Exchange rate regime

b) The Contagion effect: Why India survived Asian Currency Crisis?

c) Concept of Dutch Disease disturbing the Universe

Q7 **An Indian consultancy firm availed the services of a British consultant for whom a payment of 30,000 pounds is due after three months. The spot rate of British pound is 87.70 rupees, whereas 3-m forward is available at 88.90 suggesting about 5.5% annualized appreciation.**

a) What would be the exchange rate if the firm remains fully hedged?
b) What strategy should the firm adopt if it believes that 1) appreciation would not be much as suggested by the forward rate and 2) appreciation would be more than as suggested by the forward rate?
c) What exchange rate would be payable by the firm if it under hedges by 50% and the a spot rate after three months turns out to be a) 88.50 b) 89.30rupees
d) What exchange rate would be payable by the firm if it over hedges by 50% and spot rate after 3 months turns out to be 1) 88.50 and b) 89.30 rupees.

Q8 A firm imports petroleum intermediaries and converts them into polyfilms for sale including exports. For the next year, it has the following foreign exchange transactions expected in USD and Euro.

In million	USD	Euro
Payment for Import of machine from Europe	-	7.0
Payment for Import of raw material from Europe	-	3.5
Payment for Import of raw material from USA	5.5	-
Receipt of Export of finished goods from Europe	-	6.5
Receipt of Export of finished goods from USA	8.5	-

a) Find out the amount of transaction exposure the firm has in different currencies
b) What would be the impact on cash flows of the firm if USD and Euro appreciate by 10% during the period? Current spot rates are Rs50/$ and Rs65/Euro.
c) If the exchange rate of USD and Euro with respect to Indian rupee is perfectly positively correlated, what exposure does this firm has?
d) Is it favorable for the firm if USD and Euro appreciate?

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