



PG – 539

IV Semester M.Com. (Financial Accounting)/M.F.A.  
Examination, June 2016  
(CBCS Scheme)  
Paper – 4.3 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 70

**Instruction : Answer all Sections.**

SECTION – A

Answer **any seven** sub-questions out of ten. Each sub-question carries **two** marks.

(7×2=14)

1. a) What do you mean by Euro equity ?
- b) Explain country risk analysis.
- c) What is meant by leading and lagging strategy ?
- d) What is meant by transfer price ?
- e) Explain economic exposure.
- f) What is meant by netting ?
- g) Define Associated Enterprise.
- h) Define pecking order of financing.
- i) What is meant by money market hedge ?
- j) What are blocked funds ?

SECTION – B

Answer **any four** questions out of six. Each question carries **five** marks. (4×5=20)

2. You are given that the risk-free rate of return in India is 10%. An American investor decides to buy Indian securities with  $\beta = 1.50$  and variance of return = 20%. The Indian rupee has been depreciating at 5% against the dollar with variance of 15%. If the market portfolio fetches a return of 20% in India and correlation between the return on security and exchange rate is 0.20, estimate the expected return and risk for US investor.
3. Elucidate the various techniques to optimise cash inflows.

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4. Discuss the economic factors that should be considered when assessing country risk.
5. Explain in brief the methods of computation of Arm's length price.
6. A German subsidiary of an US based MNC has to mobilise working capital for the next 12 months. It has the following options :
 

Loan from German bank	:	6%
Loan from US parent	:	5%
Loan from Swiss bank	:	2%

Banks in Germany charge an additional 0.5% towards loan servicing. Loan from outside Germany attract withholding tax at 10% on interest paid. If the interest rates given above are market determined, examine which loan is most attractive.
7. A foreign project requires \$ 40,000, which is raised from equity and debt. \$ 10,000 is raised by equity and remaining by loan at an interest rate of 12%. Project has beta of 0.80, the risk free return is 10% and the required return on the market is estimated at 15%. Calculate overall cost for the project.

#### SECTION – C

Answer **any three** questions out of five. **Each** question carries **twelve** marks. (3×12=36)

8. Discuss transaction exposure and enumerate techniques to hedge transaction exposure.
9. A Swiss multinational has subsidiaries in Switzerland, UK and Singapore. The following cash flows are involved among the subsidiaries and Headquarters.

From	To	Amount
Swiss subsidiary	US parent	SFr 320,000
Swiss subsidiary	UK subsidiary	SFr 32,000
UK subsidiary	Swiss subsidiary	£ 27,390
UK subsidiary	US parent	£ 57,878
Singapore subsidiary	Swiss subsidiary	S\$ 534,000
Singapore subsidiary	UK subsidiary	S\$ 164,400
US parent	Singapore subsidiary	\$ 150,000



The exchange rates are currently :

£ 1 = \$ 1.64

\$ 1 = S\$ 1.68

\$ 1 = SFr 1.45

Explain how the company can use centralised cash management.

10. Explain important factors that need to be assessed from income tax point of view while entering into foreign collaboration agreement .
11. After tax lending and borrowing rates for three units of ABC Ltd. located in US, France, and Germany are :

	Lending (%)	Borrowing (%)
United States	3.4	4.2
France	3.2	4.5
Germany	3.6	4.7

Currently, the French and German units owe \$ 2 million and \$ 3 million, respectively to their US parent. The German unit also has \$ 1 million in payable outstanding to its French affiliate. The timing of these payments can be changed by up to 90 days in either direction. Assume that ABC Ltd. is borrowing funds while both the French and German Subsidiaries have excess cash available.

- a) What should be ABC Ltd.'s optimal leading and lagging strategy ?
  - b) What is the net profit impact of these adjustments ?
12. Write a short note on the following :
    - a) International project finance
    - b) Multinational Capital Budgeting
    - c) International financial market and instruments.