GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR
Course: International Financial Management
Semester-II (Batch: 2016-18)

M.B.A. End Semester Examination: April-2017

Date: 21st April, 2017
Duration: 3 hours **Max. Marks: 60**

Instructions:
- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.
- **Use of scientific calculator is permitted.**

Part-A **Marks**

Answer **any three** questions:

Q.1 Assume you are a trader with Deutsche Bank. From the quote screen on your computer terminal, you notice that Dresdner Bank is quoting €0.7627/$1.00 and Credit Suisse is offering SF1.1806/$1.00. You learn that UBS is making a direct market between the Swiss franc and the euro, with a current €/SF quote of 0.6395. Show how you can make a triangular arbitrage profit by trading at these prices. (Ignore bid-ask spreads for this problem.) Assume you have $5,000,000 with which to conduct the arbitrage. What happens if you initially sell dollars for Swiss francs? What €/SF price will eliminate triangular arbitrage? (05)

Q.2 On 25th July, your customer has presented to you at sight document for USD 10000 under an irrevocable letter of credit. The letter of credit provides for reimbursement by the negotiation bank's own demand draft on the opening bank at New York. (05)

Assuming US $/ Rupees are quoted in the local interbank market as under:

Spot	$1 =	Rs. 62.6525/6650
Spot/August		6000/5700
Spot/ September		1.0000/0.9700
Spot/ October		1.4000/3900

Transit period for bill is 20 days what rate will you quote to your customer provided you require an exchange margin of 0.15%.

Also calculate and show the rupee amount payable to the customer.

Q.3 While you were visiting London, you purchased a Jaguar for £35,000, payable in three months. You have enough cash at your bank in New York City, which pays 0.35% interest per month, Compounding monthly, to pay for the car. Currently, the spot exchange rate is $1.45/£ and the three-month forward exchange rate is $1.40/£. In London, the money market interest rate is 2.0% for a three-month investment. There are two alternative ways of paying for your Jaguar. (05)

(a) Keep the funds at your bank in the U.S. and buy £35,000 forward.
(b) Buy a certain pound amount spot today and invest the amount in the U.K. for three

months so that the maturity value becomes equal to £35,000.
Evaluate each payment method. Which method would you prefer? Why?

Q.4 Suppose that the treasurer of IBM has an extra cash reserve of $100,000,000 to invest for six months. The six-month interest rate is 8 percent per annum in the United States and 7 percent per annum in Germany. Currently, the spot exchange rate is €1.01 per dollar and the six-month forward exchange rate is €0.99 per dollar. The treasurer of IBM does not wish to bear any exchange risk. Where should he/she invest to maximize the return? (05)

Part-B

Answer all questions

Q.5 Explain the current account convertibility and capital account convertibility in the context of global financial integration. Why is Balance of Payment (BoP) an important indicator of understanding the global financial system? (10)

OR

Discuss the development of global financial regulation in the backdrop of global financial integration.

Q.6 Discuss parameters **used for,** and **efficacy of** widely acclaimed Global Competitive Indices such as Ease of Doing Business Index, Index of Económic Freedom and Global Opportunity Index in measuring countries' economic strength. How do you view India's position in these rankings? (10)

Q.7 Discuss the mode of operation of Hedge funds and Venture Capital funds internationally. (05)

Q.8 What is meant by the terminology that an option is in-, at-, or out-of-the-money? (05)

Q.9 "Brexit has spread economic shock waves across the globe." Discuss the impact of Brexit on Developing Economies. (05)

Q.10 "Demonetisation and Remonetisation of high value currencies in India is a politically correct but economically incorrect decision". Write arguments in favour and against the statement. (05)

Q.11 Discuss Comparative Advantage and Absolute Advantage theories. Does present day international trade adhere to the principles underlying these theories anymore? (05)

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