**PGDM, 2020-22**

**International Financial Management**

**DM-415**

**Trimester – IV, End-Term Examination: September 2021**

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

**Instruction:** Students are required to write Roll No on every page of the Answer Sheet. All other instructions on the question paper / notifications should be followed meticulously.

| Sections | No. of Questions to attempt | Marks | Total Marks |
|---|---|---|---|
| A | Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered<br>Or<br>Maximum 6 questions with internal choices and CILO covered (as an example) | 3*10<br>Or<br>6*5 | 30 |
| B | Compulsory Case Study with minimum of 2 questions | 20 | 20 |
| | | | **50** |

Section A

1)The one year risk free rate in Mexico is 10% and one year risk free rate in United States Is 2%. Assume that the interest parity exists. The spot rate of Mexican Peso is 0.076 US Dollar.

- What is the forward premium
- What is 1 year forward rate ?
- Based on the International Fishers Effect , what is the expected change in the spot rate over next year
- If the spot rate changes as expected according to IFE what will be the spot rate in one year.

Or

Jim Logan, owner of the sports export company is concerned about the value of the British Pound over time because his firm receives the pound as payment for footballs exported to the United Kingdom. He recently read that Bank of England (the central bank of the United Kingdom) is likely to intervene directly in the foreign exchange market by flooding the market with British Pounds.

Forecast whether the British Pound will weaken or strengthen based on the information provided.
How would the performance of sports export company be affected by the Bank of England's policy of flooding the foreign exchange market with British Pound ( assuming that it does not hedge its exchange rate risk) CILO 1

2) AV Ltd is the Indian affiliate of US sports manufacturer. AV Ltd manufactures items which are sold primarily in the United States and Europe. AV Ltd s Balance Sheet in thousands of rupees as on March 31 is as follows

***Rs in Thousands***

| **Liability** | **Rs** | **Assets** | **Rs** |
|---|---|---|---|
| Accounts Payable | 3500 | Cash | 6000 |
| Short Term Bank Loan | 1500 | Accounts Receivable | 4500 |
| Long Term Loan | 4000 | Inventory | 4500 |
| Equity Capital | 10000 | Net Plant and Equipment | 10000 |
| Retained Earning | 6000 | | |
| | **25000** | | **25000** |

The historic rate may be taken as 1 USD =40 INR and the closing rate may be taken as I USD= Rs 74 **Calculate the accounting gain or loss by MONETARY AND NON MONETARY METNO**

**Or**

Bronco Corp. has decided to establish a subsidiary in Taiwan that will produce stereos and sell them there. It expects that its cost of producing these stereos will be one-third the cost of producing them in the United States. Assuming that its production cost estimates are accurate, is Bronco's strategy sensible? Explain.

3)How can hedging be done using money market? What will be your strategy for payables and receivables?

Or

Options are better product to hedge as compared to forward and futures because they protect the down slide while retaining potential for upside.

**Section B**

Jim Toreson, chairman and CEO of Xebec Corporation, a Sunnyvale, California, manufacturer of disk-drive controllers, is trying to decide whether to switch to offshore production. Given Xebec's well- developed engineering and marketing capabilities, Toreson could use offshore manufacturing to ramp up production, taking full advantage of both low-wage labor and a grab bag of tax holidays, low-interest loans, and other government largess. Most of his competitors seemed to be doing it. the faster he followed suit, the better off Xebec would be according to the conventional discounted cash-flow analysis, which shows that switching production offshore is clearly a positive NPV investment. However, Toreson is concerned that such a move would entail the loss of certain intangible strategic benefits associated with domestic production.

a. What might be some strategic benefits of domestic manufacturing for Xebec? Consider the fact that its customers are all U.S. firms and that manufacturing technology--particularly automation skills--is key to survival in this business.
b. What analytic framework can be used to factor these intangible strategic benefits of domestic manufacturing (which are intangible costs of offshore production) into the factory location decision?
c. How would the possibility of radical shifts in manufacturing technology affect the production location decision?

d. Xebec is considering producing more-sophisticated drives that require substantial customization. How does this possibility affect its production decision?

e. Suppose the Taiwan government is willing to provide a loan of $10 million at 5 percent to Xebec to build a factory there. The loan would be paid off in equal annual installments over a five-year period. If the market interest rate for such an investment is 14 percent, what is the before-tax value of the interest subsidy?

f. Projected before-tax income from the Taiwan plant is $1 million annually, beginning at the end of the first year. Taiwan's corporate tax rate is 25 percent, and there is a 20 percent dividend withholding tax. However, Taiwan will exempt the plant's income from corporate tax (but not withholding tax) for the first five years. If Xebec plans to remit all income as dividends back to the United States, how much is the tax holiday worth?

g. An alternative sourcing option is to shut down all domestic production and contract to have Xebec's products built for it by a foreign supplier in a country such as Japan. What are some of the potential advantages and disadvantages of foreign contracting vis-á-vis manufacturing in a wholly owned foreign subsidiary?