PGDM, 2021-23

International Financial Management

DM 414

Trimester – IV, End-Term Examination: September 2022

Roll No: ____________

Time allowed: 2 Hrs
Max Marks: 40

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

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 4 questions with internal choices and all COs (Course Intended Learning Outcomes) covered in the Question Paper	4* 5	20
B	Compulsory Case Study 2 questions	2*10	20
			40

SECTION A – (5 marks * 4 questions) 20 Marks

A1a "For a fixed exchange rate system to work, the government must be able to make tight budget and monetary policies stick from the outset." Comment.

(CO 1)

OR

A1b Assume that the spot rate of the British Pound is $1.73. The expected rate one year from now is assumed to be $1.66. What percentage depreciation does this reflect? (CO1)

A2a 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 (CO2)

OR

A2b The following transactions (expressed in U.S. $ billions) take place during a year. Calculate the U.S. merchandise-trade, current-account, capital-account, and financial-account balances.

a. The United States exports $300 of goods and receives payment in the form of foreign demand deposits abroad.
b. The United States imports $225 of goods and pays for them by drawing down its foreign demand deposits.
c. The United States pays $15 to foreigners in dividends drawn on U.S. demand deposits here.
d. American tourists spend $30 overseas using traveler's checks drawn on U.S. banks here.
e. Americans buy foreign stocks with $60, using foreign demand deposits held abroad.
f. The U.S. government sells $45 in gold for foreign demand deposits abroad.
g. In a currency support operation, the U.S. government uses its foreign demand deposits to purchase $8 from private foreigners in the United States. (CO2)

A3a 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) (CO3)

OR

A3b 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

	USD Thousands		
Liabilities	**Amount**	**Asset**	**Amount**
Share Holder Fund	400	Fixed Assets	150
Long Term Loan	250	Current Assets	
Short Term Loan	210	Inventory	450
Current Liabilities	180	Receivables	400
		Bank and Cash Balances	40
	1040		**1040**

The historic rate may be taken as 1 USD =50INR and the closing rate may be taken as I USD= Rs 80

Calculate the accounting gain or loss by MONETARY AND NON MONETARY METHOD (CO3)

A4a Suppose Navistar's Canadian subsidiary sells 1,500 trucks monthly to the French affiliate at a transfer price of $27,000 per unit. The Canadian and French marginal tax rates on corporate income are assumed to equal 45 percent and 50 percent, respectively.

Suppose the transfer price can be set at any level between $25,000 and $30,000. At what transfer price will corporate taxes paid be minimized? Explain. (CO4)

OR

A4b.Suppose Navistar's Canadian subsidiary sells 1,500 trucks monthly to the French affiliate at a transfer price of $27,000 per unit. The Canadian and French marginal tax rates on corporate income are assumed to equal 45 percent and 50 percent, respectively.

Suppose the transfer price can be set at any level between $25,000 and $30,000. At what transfer price will corporate taxes paid be minimized? Explain. (CO4)

SECTION B – CASE STUDY (20 Marks) Compulsory
(CO 3 & CO 4)

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?