PGDM IB

International Financial Management

IB 401

Trimester – IV, End-Term Examination: September 2018

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Section A

A1)Suppose that the Brazilian real devalues by 40% against the U.S. dollar. By how much will the dollar appreciate against the real?
A2)What does fishers effect state?
A3)How will you use money market to mitigate transaction risk?
A4)What are some reasons for deviations from purchasing power parity?
A5)Investment in Patagonia exceeds private savings by $15 billion. What can you conclude about Patagonia's balance on current account?

Section B

B1)What factors affect a company's translation exposure? What can the company do to affect its degree of Translation Exposure?

B2) Describe in general terms how future appreciation of the euro will likely affect the value (from the parent's perspective) of a project established in Germany today by a U.S.-based MNC. Will the sensitivity of the project value be affected by the percentage of earnings remitted to the parent each year?

B3) A European company issues common shares that pay taxable dividends and bearer shares that pay an identical dividend but offer an opportunity to evade taxes: Bearer shares come with a large supply of coupons that can be redeemed anonymously at banks for the current value of the dividend.

a. Suppose taxable dividends are taxed at the rate of 10 percent. What is the ratio between market prices of taxable and bearer shares? If a new issue is planned, should taxable or bearer shares be sold?

b. Suppose, in addition, that it costs 10 percent of proceeds to issue a taxable dividend, whereas it costs 20 percent of the proceeds to issue bearer stocks because of the expense of distribution and coupon printing. What type of share will the corporation prefer to issue?

Section C

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?