PGDM Trimester IV
End Term Examination September 2017
International Financial Management
DM 415

Time 2.30 hours **MM 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.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Q	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

Section A

A1)If the country follows the fixed exchange rate regime, what macroeconomic variable could cause fixed exchange rate to be devalued?
A2)What is hyperinflation and what are its consequences for translating foreign financial statement?
A3)Why is the capital budgeting for a foreign project more complex?
A4)What do you understand by blocked funds?
A5)What strategic responses can the multinational firm make to avoid loss from its operating exposure?

Section B

B1) Convert the following indirect quote to direct quote and direct quote to indirect quote
Euro: Euro1.22/ $ 9 Indirect Quote
Canada: $0.72/C$ Direct Quote
Denmark: $0.1644/DKr Direct Quote

B2) Money and Foreign Exchange Market in London and New York are very efficient. The following information is available

	London	New York
Spot Exchange Rate	$1.3860/ Euro	$1.3860/ Euro
One year treasury bill rate	3.8%	4.2%
Expected Inflation Rate	Unknown	2%

What does the financial markets suggest for inflation in Europe next year?

B3) XYZ Ltd is the Indian affiliate of US sports manufacturer. XYZ Ltd manufactures items which are sold primarily in the United States and Europe. XYZ Ltd s Balance Sheet in thousands of rupees as on March 31 is as follows

Rs in Thousands

Liability	Rs	Assets	Rs
Accounts Payable	13500	Cash	16000
Short Term Bank Loan	11500	Accounts Receivable	15500
Long Term Loan	8000	Inventory	9500
Equity Capital	17000	Net Plant and Equipment	19000
Retained Earning	10000		
	60000		**60000**

The historic rate may be taken as 1 USD =30INR and the closing rate may be taken as I USD= Rs 63

Calculate the accounting gain or loss by MONETARY AND NON MONETARY METHOD

Section C

Case Study

Your employer, Volkswagen Motors Corp., plans to import 500 Opel Insignias from its plant in Berlin, Germany, rebadge them as "Polo" and sell them in the U.S. via Smart Car dealerships. The German subsidiary of the company has agreed to sell them for a total of 10 million Euros, which will be payable on April 9th, 2017. We are on February 1st, 2017.

(a) Explain how VW can use currency futures to hedge the exchange-rate risk stemming from this account payable. Should VW go long or short? Approximately how many futures contracts Will VW need? Each Euro futures is for delivery of Euro 125,000?

(b) Is VW completely hedged? Would VW's hedge be better with a customized forward contract?