

MAJOR TEST – MAY 2016
SML 875: INTERNATIONAL FINANCIAL MANAGEMENT (IFM)

Time: 2 hours

Marks: 100

I. A company needs 2 million euros each at the end of 3 months and 6 months respectively. Also, it is going to have a large inflow of euros after one year. While meeting its need at the end of 3 and 6 months respectively, it wants to eliminate interest rate risk. What should it do? Explain with necessary calculations. At the moment, euro interest rates applicable to different maturities are:

1-m	<i>interest for</i>	3-m	6-m	9-m	12-m
4% p.a		4.05% p.a	4.10% p.a	4.16% p.a	4.25% p.a

(15 Marks)

II. Do the necessary calculations and list the steps to be taken in the currency/money market if a company has to place Rs. 1 million in foreign currency for 6 months. It may base its decision either

- a. on hedging its entire exposure through forward market, or
- b. on its own predicted exchange rates.

$$2 \left(1 + \frac{4.05}{100} \times \frac{3}{12} \right) = 2.02025$$

Look at the following data:

6-m Interest Rates:

Pound: 3.00%; Euro: 3.10%; SFr: 3.15% p.a

Exchange Rates:

	Spot	6-m Forward	6-m Predicted
Re/£	99.00	100.00	100.50
Re/€	72.30	72.00	72.10
Re/SFr	68.50	69.00	68.80

(15 Marks)

III. Show by derivation as to for what period 'P', a surplus should be available so that it makes sense to use a fixed-period (D) investment instrument (with a rate i) in conjunction with a overdraft (with a rate b) rather than making a simple bank deposit (with a rate d).

What will a treasurer do with a surplus of \$4 lacs available for 10 days if $i = 7\%$ p.a.; $b = 9\%$; $d = 4\%$ pa; and $D = 30$ days

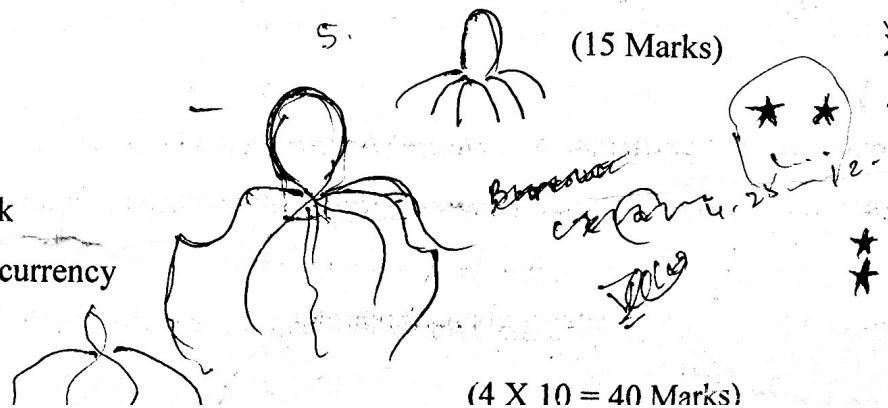
(15 Marks)

IV. How will the Indian parent company decide whether to wind up its operations by selling its present assets in South Africa for Rand 5 billion or continue operating and sell them after two years when it may get Rand 10 billion (boom conditions) or just 3 billion Rand (bust conditions)? Boom and bust are equally likely. The current exchange rate is Rs 4/Rand. Also, Rand may appreciate by 1 per cent per year (boom) or may depreciate by 2 per cent per year (bust). Rupee discount rate is 12 per cent.

(15 Marks)

V. Write notes on:

- MIGA
- Management of Political Risk
- Over- or Under-valuation of currency
- Sovereign Credit Rating



(4 X 10 = 40 Marks)