



# INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

Dundigal, Hyderabad - 500 043

## MASTER OF BUSINESS ADMINISTRATION

### TUTORIAL QUESTION BANK

<b>Course Title</b>	<b>INTERNATIONAL FINANCIAL MANAGEMENT</b>				
<b>Course Code</b>	CMBB57				
<b>Programme</b>	MBA				
<b>Semester</b>	IV				
<b>Course Type</b>	Professional Elective-VI				
<b>Regulation</b>	IARE - R18				
<b>Course Structure</b>	<b>Theory</b>			<b>Practical</b>	
	<b>Lectures</b>	<b>Tutorials</b>	<b>Credits</b>	<b>Laboratory</b>	<b>Credits</b>
	4	-	4	-	-
<b>Chief Coordinator</b>	Mr. N. Suresh, Assistant Professor, MBA				
<b>Course Faculty</b>	Mr. N. Suresh, Assistant Professor, MBA				

#### COURSE OBJECTIVES:

The course should enable the students to:

<b>S. No</b>	<b>Description</b>
<b>I.</b>	Understand the overview, importance, nature and scope of International Financial Management
<b>II.</b>	Recognize the fundamentals of BOP, Accounting components of BOP, factors affecting and International Trade flows
<b>III.</b>	Elucidate the functions and Structure of the Forex markets, major participants and types of transactions and settlements dates
<b>IV.</b>	Know about the foreign direct investment, international capital budgeting, international capital structure and cost of capital and international portfolio management

**COURSE OUTCOMES:****Students, who complete the course, will have demonstrated the ability to do the following:**

<b>CO Code</b>	<b>At the end of the course, the student will have the ability to:</b>
CMBB57.0 1	Describe the meaning, definitions, nature and scope of financial management
CMBB57.0 2	Identify the goals, evolution and functions of financial management
CMBB57.0 3	Examine the new role of finance function in contemporary scenario
CMBB57.0 4	Illustrate the differences between profit maximization and wealth maximization
CMBB57.0 5	Demonstrate the concepts of risk return trade off, time value, future value and present value of money
CMBB57.0 6	Discuss the meaning, definitions, characteristics and importance of investment decisions
CMBB57.0 7	Apply the methods and principles of capital budgeting
CMBB57.0 8	Predict the investment decision process and significance of capital budgeting
CMBB57.0 9	Explain the term capital budgeting decision under risk and uncertainty and methods of capital budgeting techniques.
CMBB57.10	Determine the concept and measurement of cost of capital

## TUTORIAL QUESTION BANK

S. No	QUESTION	Blooms Taxonomy Level	Course Outcomes
<b>UNIT-I</b>			
<b>INTERNATIONAL FINANCIAL MANAGEMENT</b>			
<b>PART-A (SHORT ANSWER QUESTIONS)</b>			
1	State the term 'international financial system'.	Understand	CMBB57.01
2	Summarize 'theory of mercantilism'.	Understand	CMBB57.01
3	Describe the nature of International Financial Management.	Understand	CMBB57.01
4	Interpret the 'Global strategic rivalry theory'.	Remember	CMBB57.01
5	Categorize the various international business methods.	Remember	CMBB57.01
6	Explicit the 'theory of absolute cost advantage'.	Understand	CMBB57.01
7	Describe the scope of International Financial Management.	Remember	CMBB57.01
8	Narrate a note on multinational corporation.	Understand	CMBB57.01
9	Elucidate the term 'transnational corporation'.	Remember	CMBB57.01
10	Explicit the reasons for evolution of MNE'S.	Understand	CMBB57.01
11	Elucidate the recent changes in International Financial Management.	Remember	CMBB57.02
12	Classify different International Business Methods.	Understand	CMBB57.02
13	List out the recent challenges in International Financial Management.	Remember	CMBB57.02
14	State the term 'International finance'.	Understand	CMBB57.02
15	Elucidate the term 'Domestic finance'.	Remember	CMBB57.02
16	Highlight the advantages and disadvantages of Licensing.	Remember	CMBB57.02
17	Narrate the Franchising agreements.	Remember	CMBB57.02
18	Interpret the process of 'exporting' and its different forms.	Remember	CMBB57.02
19	Enlist any two advantages of International Business.	Remember	CMBB57.02
20	List out any two disadvantages of International Business.	Remember	CMBB57.02
<b>PART-B (LONG ANSWER QUESTIONS)</b>			
1	Explore the term 'International Financial management'. Interpret its significance.	Understand	CMBB57.01
2	List out the costs, benefits and effects of International investments. Evaluate how it affects financial market.	Understand	CMBB57.01
3	Enumerate the distinguishing features of international finance.	Understand	CMBB57.01
4	Describe nature and scope or content of International Financial Management and significance of IFM.	Understand	CMBB57.01
5	Interpret the issue of Transfer Pricing in the financial management of MNC.	Remember	CMBB57.01
6	Narrate your understanding by strategic consideration in Transfer Pricing.	Remember	CMBB57.01
7	State the practical consideration in transfer pricing. Elucidate the "Arms length process".	Remember	CMBB57.01
8	Enlist the new problems and factors that are encountered in international financial management as opposed to domestic financial management	Remember	CMBB57.01
9	Explore the recent changes and challenges in IFM. Describe the main role in IFM.	Understand	CMBB57.01

10	Summarize an overview of International Financial Management. Explicit the international business methods and management contract.	Understand	CMBB57.02
11	Explore the possible reason for growth in monetary international Business.	Understand	CMBB57.02
12	Describe the global strategic rivalry theory and national competitive advantage theory of international trade.	Remember	CMBB57.02
13	Summarize about joint venture, foreign subsidiaries and management contracts methods of International Business.	Remember	CMBB57.02
14	Enlist the recent changes in the global financial market and some of the complexities in international financial management compared domestic financial management.	Understand	CMBB57.02
15	Distinguish between multinational corporation and transnational corporation.	Understand	CMBB57.02
16	Categorize 'International Finance' Vs 'Domestic Finance'. Evaluate how each one of them affects IFM.	Understand	CMBB57.02
17	Explore the process 'Franchising'-basic issues, agreements and advantages and summarize the effects on the franchiser and franchisee in IFM.	Understand	CMBB57.02
18	Evaluate in brief Exporting. Summarize its different forms and its advantages.	Understand	CMBB57.02
19	Infer the reasons for MNCs performing better than domestic performs.	Understand	CMBB57.02
20	Explicit the challenges do the International Financial Management face. Enlist some complexities and changes it overcomes.	Remember	CMBB57.02
21	Describe in detail "Management contracts" used by firms to conduct international business activities.	Understand	CMBB57.02
<b>PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)</b>			
1	Describe the role of Forex or foreign exchange management in international financial management.	Remember	CMBB57.01
2	Narrate how international capital flows affect International Financial Management.	Understand	CMBB57.01
3	Narrate the two segments of International Financial Management.	Remember	CMBB57.02
4	Financial management of a company is a complex process. Interpret in detail.	Understand	CMBB57.02
5	Explicit how the emergence of euro market in 1960s was a major cause for development and growth in IFM.	Remember	CMBB57.02
6	Narrate how 'integration' among the different financial markets in 1980's brought a remarkable change in International financial Management.	Remember	CMBB57.02
7	Describe how did 'liberalization' become a responsible factor for Functional integration in International financial Management.	Remember	CMBB57.02
8	Interpret how the study of International financial Management is Important for MNCs.	Understand	CMBB57.02
9	Launch of Euro in 1999 brought a change of trend in Globalization in IFM. Elucidate in detail	Understand	CMBB57.02
10	Explicit in brief joint venture, establishing new foreign subsidiaries and management contracts methods of international Business.	Remember	CMBB57.02

**UNIT-II**

**INTERNATIONAL FLOW OF FUNDS**

**PART-A (SHORT ANSWER QUESTIONS)**

1	Describe the term 'Balance of payment.	Remember	CMBB57.03
2	Enlist the significance of balance of payment.	Understand	CMBB57.03
3	State the terms 'capital account' and 'official reserve' in balance of Payment.	Remember	CMBB57.03
4	Elucidate the causes for disequilibrium in balance of payment.	Remember	CMBB57.03
5	Enlist the components of capital account.	Understand	CMBB57.03
6	Summarize a note on International monetary fund.	Remember	CMBB57.03
7	Interpret the term 'gold standard'.	Understand	CMBB57.03
8	Summarize the term 'purchasing power parity'.	Understand	CMBB57.03
9	Describe the meaning of 'currency pegging'.	Remember	CMBB57.03
10	Elucidate the term 'sterilization'.	Understand	CMBB57.03
11	Narrate a few points on the European monetary system.	Understand	CMBB57.03
12	Enlist a few benefits of monetary union.	Remember	CMBB57.04
13	Highlight the trends in Indian trade balance.	Remember	CMBB57.04
14	State the major factors which effect financial flow at global Level.	Understand	CMBB57.04
15	Interpret the meaning of 'unilateral transfer'.	Remember	CMBB57.04
16	Categorize the impact of International capital flows.	Understand	CMBB57.04
17	State the term 'unsterilized intervention'.	Remember	CMBB57.04
18	Distinguish the differences between sterilized and unsterilized Intervention.	Understand	CMBB57.04
19	Categorize the components of capital accounts.	Remember	CMBB57.04
20	Enlist about the agencies facilitating international flows.	Understand	CMBB57.04

**PART-B (LONG ANSWER QUESTIONS)**

1	Narrate the process of foreign exchange determination under BOP approach and its significance.	Remember	CMBB57.03
2	Summarize how individual transactions between a foreign and domestic resident are recorded on the balance of payments accounts.	Understand	CMBB57.03
3	Enlist the fundamentals of balance of payment accounting and principle for valuation and timing with performance of balance of payment.	Remember	CMBB57.03
4	Describe the principles for the valuation of goods/ services and timing of recording the transaction in Balance of Payment.	Understand	CMBB57.03
5	Explore the elasticity approach to the balance of payment adjustment. Examine how does it differ from classical approach	Remember	CMBB57.03
6	Describe the various factors affecting balance of payment account its follows.	Understand	CMBB57.03
7	Elucidate the various agencies which facilitate international flows and Indian balance of payment trends.	Remember	CMBB57.03
8	Summarize the agencies facilitating international flows and Indian balance of payment trends and stands by agreements.	Understand	CMBB57.03
9	Infer how elasticity approach to the balance of payment adjustment differs from classical approach.	Remember	CMBB57.03
10	Elucidate International monetary system. Explicitly mention the participants in IMS and their roles.	Remember	CMBB57.03

11	Describe the international monetary system. Elucidate the needs for an efficient and sound international monetary system.	Remember	CMBB57.04
12	Explore how the exchange rates are determined as per the gold standard exchange rates.	Remember	CMBB57.04
13	Elucidate a brief note regarding the Breton Woods's agreement and new monetary system agreements, the collapse of Breton wood system.	Understand	CMBB57.04
14	Describe how did the US position of BOP influence the whole international monetary system under Sir Bretton Woods system	Understand	CMBB57.04
15	Explicit the detail about flexible exchange rate regime. Infer did Bretton woods system follow the flexible exchange rate regime	Remember	CMBB57.04
16	Interpret in detail about the evolution of floating rates. Elucidate how it is different from fixed rate system.	Understand	CMBB57.04
17	Classify exclusively the exchange rate arrangements in International Monetary Fund.	Understand	CMBB57.04
18	Describe the European monetary system. Elucidate the role played by European central bank in the European monetary system.	Understand	CMBB57.04
19	Narrate in detail about the Economic and Monetary Union (EMU). Enlist its functions.	Remember	CMBB57.04
20	Enumerate the benefits and costs of monetary union. Explain with an example.	Understand	CMBB57.04
<b>PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)</b>			
1	Obtain how the following transactions entered in the U.S.balance of payment. a) A U.S.firm exports \$ 100 worth of goods to the U.K. payable in 3 months. b) After 3 months the English importer pays by drawing down her dollar deposits in a new York bank. c)what is left of transactions.	Analyze	CMBB57.04
2	Solve the following transactions and estimate the balance of payment. a) A U.S. firm exports \$ 500 worth of goods to be paid in 3- months b) A U.S. resident visits London he spends \$ 200 on hotel meals so on. c) U.S. government gives a U.S.bank balance of \$ 100 to the government of a developing nation as part of the U.S. aid programme. d) A U.S. resident purchases a foreign stock for \$ 400 and pay for it by increasing the foreign bank balance in the U.S. e) A foreign investor purchases \$ 300 of U.S. treasury bills and pays by drawing down his bank balances in the U.S. by an equal amount.	Analyze	CMBB57.04
3	Obtain the overall balance, showing clearly all the sub-balances from the following data. 1. U. S. corporation of the USA invests in India ₹ 300000 to modernize its Indian subsidiary. 2. A tourist from Egypt buys souverins worth ₹ 3000 to carry with him. He also pays hotel to travel bills of ₹ 5000 to Delhi tourist agencies. 3. The Indian subsidiary of UC corporation remits, as usual, ₹5000 as divided to its parent company in the U.S. 4. The Indian subsidiary of UC Corporation sells a part of production in other Asian countries for ₹ 1, 00,000. 5. The Indian subsidiary borrows a sum of ₹ 2, 50,000 (to be	Analyze	CMBB57.04

	<p>paid back in a year's time)from the German market to resolve its urgent liquidity problem.</p> <p>6. An Indian company buys a machine for ₹ 1,00,000 from Japan and 60% payment is made immediately. The remaining amount is to be paid after 3 years.</p> <p>An Indian subsidiary of a French company borrows ₹ 50,000 from Indian public to invest in its modelization programme.</p>																																						
4	<p>Calculate the balance of trade, balance of current account and the overall balance of payments with the help of the following figure.</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Debit ₹ Million</th> <th>Credit ₹ Million</th> </tr> </thead> <tbody> <tr> <td>Trade in goods</td> <td>55,383</td> <td>38,285</td> </tr> <tr> <td>Services, such as travel, transport and others</td> <td>11,865</td> <td>15,720</td> </tr> <tr> <td>Statistical discrepancy</td> <td>.....</td> <td>323</td> </tr> <tr> <td>Unilateral transfer</td> <td>34</td> <td>12,672</td> </tr> <tr> <td>Foreign investment</td> <td>7,123</td> <td>12,240</td> </tr> <tr> <td>External assistance</td> <td>2,183</td> <td>3,074</td> </tr> <tr> <td>External commercial borrowings</td> <td>2,874</td> <td>3,207</td> </tr> <tr> <td>Investment</td> <td>5,490</td> <td>1,931</td> </tr> <tr> <td>Banking capital</td> <td>8,532</td> <td>11,259</td> </tr> <tr> <td>Dollar debt service</td> <td>711</td> <td>.....</td> </tr> <tr> <td>Other capital transactions</td> <td>2,510</td> <td>4,018</td> </tr> </tbody> </table>	Item	Debit ₹ Million	Credit ₹ Million	Trade in goods	55,383	38,285	Services, such as travel, transport and others	11,865	15,720	Statistical discrepancy	.....	323	Unilateral transfer	34	12,672	Foreign investment	7,123	12,240	External assistance	2,183	3,074	External commercial borrowings	2,874	3,207	Investment	5,490	1,931	Banking capital	8,532	11,259	Dollar debt service	711	.....	Other capital transactions	2,510	4,018	Analyze	CMBB57.04
Item	Debit ₹ Million	Credit ₹ Million																																					
Trade in goods	55,383	38,285																																					
Services, such as travel, transport and others	11,865	15,720																																					
Statistical discrepancy	.....	323																																					
Unilateral transfer	34	12,672																																					
Foreign investment	7,123	12,240																																					
External assistance	2,183	3,074																																					
External commercial borrowings	2,874	3,207																																					
Investment	5,490	1,931																																					
Banking capital	8,532	11,259																																					
Dollar debt service	711	.....																																					
Other capital transactions	2,510	4,018																																					
5	Obtain the balance of capital account, if: inflows of loans: \$2,000; repayment of load: \$2,150; FDI inflow: \$7,000; FDI outflow: \$1,500; Short term movement of funds:-200.	Analyze	CMBB57.04																																				
6	Appraise the effect of balance of payment on fixed exchange rate countries.	Analyze	CMBB57.04																																				
7	Elucidate the factors effecting impact of national income and government policies.	Analyze	CMBB57.04																																				
8	Describe the fundamental of balance of payment accounting and principles for valuation and timings.	Remember	CMBB57.04																																				
9	Describe the reasons for difficult in capital account, and reasons for the difficult in capital account.	Analyze	CMBB57.04																																				
10	Evaluate the systems given by Rangarajan panel for correcting balance of payment.	Analyze	CMBB57.04																																				
<b>UNIT-III</b>																																							
<b>FOREIGN EXCHANGE MARKET</b>																																							
<b>PART-A(SHORT ANSWER QUESTIONS)</b>																																							
<b>CIE-I</b>																																							
1	State the term 'foreign exchange market', its characteristics and functions.	Remember	CMBB57.05																																				
2	Enlist a few points on euro currency market.	Remember	CMBB57. .05																																				
3	State about a) Futures contract b) Dividend discount model.	Understand	CMBB57.05																																				
4	State euro- bond market with examples.	Understand	CMBB57.05																																				
5	Explicit briefly currency derivates.	Remember	CMBB57.05																																				
6	<p>Assume the buying rate of sports in Newyork is \$ 0.40.</p> <p>a) Validate what you would expect the price of the U.S. dollar to be in Germany.</p> <p>b) if the dollar were quoted in Germany at Dm 2.60, analyze how the market is supposed to react.</p>	Analyze	CMBB57.05																																				

7	Consider the three worth future contract on sand P 500. Suppose that the stock underlying the index provides a dividend yield of 1% pa, that the currency value of index is 400 and that continuously risk free rate of interest is 6% pa. Evaluate future price.	Analyze	CMBB57.05
8	Three one month forwards deals were contracted respectively on the 28 <sup>th</sup> and 29 <sup>th</sup> January 2001. Calculate the settlement dates.	Analyze	CMBB57.05
9	Distinguish between arbitrage and speculation.	Remember	CMBB57.05
10	Discuss about the structure of foreign exchange market.	Remember	CMBB57.05
11	Summarize the concept of foreign exchange future contract.	Remember	CMBB57.06
12	Enlist the trading practices in currency forward futures and options markets.	Remember	CMBB57.06
13	Describe a note on international money market Vs capital markets.	Remember	CMBB57.06
14	List out the reasons for the growth of the euro currency market.	Understand	CMBB57.06
15	Classify the different types of euro currency market instruments.	Understand	CMBB57.06
16	State the term 'security market'.	Remember	CMBB57.06
17	Convert the following rates into outright rates and indicate their spreads.  <div style="text-align: center;"> <input type="checkbox"/> /\$ 35.6300/25  <input type="checkbox"/> /£ 55.2200/35  <input type="checkbox"/> /DM 23.9000/30 </div>	Analyze	CMBB57.06
18	Suppose the rates are quoted as follows in Paris, GBP/USD 1.5537/50 FFr/USD 0.1982/98  Calculate the direct quote for pound sterling in Paris.	Analyze	CMBB57.06
19	The spot exchange rate between the French francs and the Us dollar on a particular day was quoted as 5.4745 and 0.18267. a) If you wished to exchange \$2000 to French Francs on this date, calculate how many francs would you receive. b) If your friend. Mohan who lives in Paris wanted to buy merchandise from an American corporation at a price of \$218.98, estimate how many francs would he have to pay.	Analyze	CMBB57.06
20	State what you mean by international stock diversification.	Understand	CMBB57.06
<b>PART-B(LONG ANSWER QUESTIONS)</b>			
1	Elucidate about foreign exchange market. Discuss the characteristics and functions of foreign exchange market for international trade.	Remember	CMBB57.05
2	Describe the various functions foreign exchange market. Illustrate with examples.	Understand	CMBB57.05
3	Explore the major participants the foreign exchange market. Write a note on them.	Remember	CMBB57.05
4	Enlist various quotations of foreign exchange transactions. Enumerate the functions of exchange quotations.	Remember	CMBB57.05
5	Elucidate the process of arbitrage. Write about the cross rates, currency arbitrage and mechanism of spot transactions of arbitrage.	Understand	CMBB57.05
6	Illustrate with suitable examples hedging in a forward market. Explore how the risks arise due to the fall of commodity price.	Understand	CMBB57.05



7	Describe currency futures and options. Summarize currency Derivatives. Classify them.	Remember	CMBB57.05
8	Elucidate future contracts. Enlist the types of future contract and features of future contract.	Remember	CMBB57.05
9	Enlist the elements of option contracts. Analyze clearly the factors on which the value of an options contract depends	Understand	CMBB57.05
10	Elucidate how currency futures and options are used to manage foreign exchange risk.	Understand	CMBB57.05
11	Enlist out the aspects and distinguish between forward contract and futures contract.	Remember	CMBB57.06
12	Interpret widely the international money market-features, components and functions	Remember	CMBB57.06
13	Enumerate the various components of developed money market. Describe in brief European money market and Asian money market.	Understand	CMBB57.06
14	Enlist different development in international capital markets, and narrate how exchange markets Vs. currency markets.	Understand	CMBB57.06
15	Elucidate on International banks/Euro banks and various factors behind development of Euro banks.	Remember	CMBB57.06
16	Interpret your knowledge an international bond market. Evaluate how an International bond market forms a long-term debt market in the international scenario.	Understand	CMBB57.06
17	Enlist briefly the various types of international bonds. Classify the types of international bonds in bond markets.	Understand	CMBB57.06
18	Categorize the different stages involved in the issue of international Bonds. Narrate the development made in international bond market.	Remember	CMBB57.06
19	Interpret in detail about the various international stock markets, methods for the valuation of stocks in international market.	Understand	CMBB57.06
20	Classify the approaches to invest in international stock markets and describe what a security market is.	Understand	CMBB57.06
<b>PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)</b>			
1	Elucidate what is the foreign exchange market. Describe the structure of foreign exchange market.	Remember	CMBB57.05
2	Describe how various types of transactions take place in spot and forward markets.	Analyze	CMBB57.05
3	Enlist the speculations in the forward market, and illustrate the examples of forward market.	Understand	CMBB57.05
4	Describe the foreign exchange option contract, and summarize a note on call option and put option.	Understand	CMBB57.05
5	Elucidate what is euro- currency market and euro credit market. Summarize about Euro currency market and Euro credit market.	Understand	CMBB57.05
6	Summarize how Euro bond market differs from domestic bond market in international market.	Remember	CMBB57.05
7	Describe what an international stock market is. Elucidate the mechanism of International stock markets with example.	Remember	CMBB57.05
8	The price of equity shares of LG phones Ltd. Company is ₹ 25. The risk free rate is 10% p.a. the company doesn't pay any dividend but follows continuous compounding. An investor desires to enter into a 1 year forward contract. Calculate the forward price.	Analyze	CMBB57. .06

9	An investor purchases a sensex future at 4400 in a market lot size of 100 futures. On the maturity date, the sensex is 4500. Find out his profit or loss for one lot of futures. Solve for his position, if the sensex is 4450 on the maturity date.	Analyze	CMBB57.06
10	The stock value of GMR industries in spot market is ₹ 350 and three months option contract is of ₹ 350. The price of the option is 12% share. Evaluate at what price the option will be at-the-money, out-of-money and in-the-money, if the option is both call as well as put option	Analyze	CMBB57.06
<b>UNIT-IV.</b>			
<b>EXCHANGE RATES</b>			
<b>PART-A (SHORT ANSWER QUESTIONS)</b>			
1	Interpret the term 'translation exposure'.	Remember	CMBB57.07
2	Narrate a short note on international arbitrage.	Understand	CMBB57.07
3	Describe what you mean by interest rate parity.	Remember	CMBB57.07
4	List out the limitations of covered interest arbitrage.	Understand	CMBB57.07
5	Given the following data Sports rate ₹ 35.0020=\$1 Six months forward rate ₹ 35.9010=\$1 Annualized interest rate on six months rupee: 12% Annualized interest rate on six months dollar: 7% Solve to work out the arbitrage possibilities.	Analyze	CMBB57.07
6	The interest rate in India and America were 11% and 9% respectively. The spot exchange rate S (₹/\$)=34.35 and the forward rate for 3 months is F 1/4(₹/\$). If an Indian company wants to borrow ₹ 1 crore, then infer which currency should it choose.	Analyze	CMBB57.07
7	Describe the relationship between inflation, interest rate and exchange rate.	Analyze	CMBB57.07
8	If the price of basket of goods in France is FF₹ 30.00 and the same goods cost \$11.00 in U.S. then what should be the spot exchange rate for FF₹/\$. If $S_0$ (FF₹/\$) =2.3, then estimate the function of arbitrageurs.	Analyze	CMBB57.07
9	The current U.S. Price level is at 112 while the German price level is at 107, relative to base price levels of 100. If the initial value of DM was \$0.48, find the current value of DM, if PPP is to exist. Also estimate the percentage change in DM.	Analyze	CMBB57.07
10	If the inflation rate in India is 8% and the rate of inflation in America is 6%, analyze the change in the spot exchange rate due to inflation and comment.	Analyze	CMBB57.07
11	Exchange rates ,Can \$0.665 per DM (spot) Can \$0.670 per DM (3-months) Interest rates , DM 7% P.A Can \$9% P.A Solve for the arbitrage gain possible from the above data.	Analyze	CMBB57.07
12	The price of a basket of goods in India is ₹ 100 and the spot exchange rate between Australian \$ and Indian ₹ is 28. Solve for the cost of same basket of goods in Australia.	Analyze	CMBB57.08
13	Assume over a period of two years, the US price index moves from 110 to 125 and the Japanese price index moves from 105 to 110. The spot exchange rate is U.S. \$1= 112. Examine what would be the spot exchange rate in a 2 years.	Analyze	CMBB57.08
14	In 1990, the inflation rate in Netherlands was 2.3% P.A, while that in Australia was 7.7%. During the year, the exchange rate fell from 1.70 guilders per AUS \$ to 1.45. Examine if PPP holds good.	Analyze	CMBB57.08
15	The U.S. and Germany are running annual inflation rates at 5% and 3% respectful. The initial exchange rate was DM1=\$0.75. Solve for the value of DM in 3 years, if PPP were to exists.	Analyze	CMBB57.08

16	<p>Some price in international money market are as follows,</p> <table border="1"> <tr> <td>Spot rate:</td> <td>\$ 0.60 =DM 1</td> </tr> <tr> <td>1-year forward:</td> <td>\$ 0.63 =DM 2</td> </tr> </table> <p>Annualized interested rate on 1- year DM = 6.5 percent Annualized interested rate on 1- year \$ = 8.5 percent Solve to find out if there exists a possibility of arbitrage gain.</p>	Spot rate:	\$ 0.60 =DM 1	1-year forward:	\$ 0.63 =DM 2	Analyze	CMBB57.08																				
Spot rate:	\$ 0.60 =DM 1																										
1-year forward:	\$ 0.63 =DM 2																										
17	If the current exchange rate between U.S. \$ and FFr is \$1= FFr5.0150 and interest rates for a period of one year is likely to be 7% in U.S. and 8.5% in FFR. Analyze the exchange rate after one year.	Analyze	CMBB57.08																								
18	Summarize a note on Fisher effect. Elucidate how does it manages different kinds of rates.	Remember	CMBB57.08																								
19	Describe your understanding on exchange rate. Elucidate how do exchange rates influence the credit policy of a company.	Remember	CMBB57.08																								
20	The interest rate in U.S. is 10% in Japan, the comparable rate is 7%. The spot for the ¥ is \$0.003800. If the interest rate parity holds, estimate what is the 90 days forward rate.	Analyze	CMBB57.08																								
<b>PART-B (LONG ANSWER QUESTIONS)</b>																											
1	Describe how currency exchange rate is managed at international level. Elucidate how to measure exchange rate movements and enlist the different factors influencing foreign exchange rates.	Understand	CMBB57.07																								
2	Interpret the mechanism of measuring exchange rate at the International level. Explore the influence of governments over Changes in exchanges rates.	Remember	CMBB57.07																								
3	Distinguish between foreign exchange exposure and foreign Exchange risk. Enlist what types of exchange exposure is a Multinational enterprise subjected to.	Understand	CMBB57.07																								
4	Enumerate the different types of capital market risks and product market risk.	Remember	CMBB57.07																								
5	Describe the terms: credit basis risk, settlement risk, currency risk, foreign exchange risk and commodity risk.	Understand	CMBB57.07																								
6	Elucidate what you mean by international arbitrage. What are the different forms of international arbitrage.	Understand	CMBB57.07																								
7	Analyse the interest rate parity. Describe the theory of interest rate parity.	Remember	CMBB57.07																								
8	Enumerate the purchasing power parity, Law of one price and absolute form of purchasing power parity, relative form of purchasing power parity.	Remember	CMBB57.07																								
9	State the reasons where purchasing power parity is not applicable. Enumerate the expectations of purchasing power parity.	Remember	CMBB57.07																								
10	<p>Solve for outright forward rates, analyzed forward premium (or discount) from the following</p> <table border="1"> <thead> <tr> <th>Spot rate</th> <th>Three months swap point</th> <th>Six months swap point</th> </tr> </thead> <tbody> <tr> <td><input type="checkbox"/> 67.08-09/£</td> <td>02-04</td> <td>05-03</td> </tr> <tr> <td><input type="checkbox"/> 48.93-95/\$</td> <td>10-12</td> <td>13-15</td> </tr> <tr> <td><input type="checkbox"/> 70.5000-5100/£</td> <td>1000-1100</td> <td>1200-1350</td> </tr> <tr> <td><input type="checkbox"/> 70.63-68/Y</td> <td>26-24</td> <td>35-32</td> </tr> </tbody> </table>	Spot rate	Three months swap point	Six months swap point	<input type="checkbox"/> 67.08-09/£	02-04	05-03	<input type="checkbox"/> 48.93-95/\$	10-12	13-15	<input type="checkbox"/> 70.5000-5100/£	1000-1100	1200-1350	<input type="checkbox"/> 70.63-68/Y	26-24	35-32	Analyze	CMBB57.07									
Spot rate	Three months swap point	Six months swap point																									
<input type="checkbox"/> 67.08-09/£	02-04	05-03																									
<input type="checkbox"/> 48.93-95/\$	10-12	13-15																									
<input type="checkbox"/> 70.5000-5100/£	1000-1100	1200-1350																									
<input type="checkbox"/> 70.63-68/Y	26-24	35-32																									
11	<p>Examine on the basis of the following Data whether:</p> <p>a) Absolute version of PPP theory holds good.</p> <p>b) Law of one price holds good.</p> <table border="1"> <thead> <tr> <th>USA</th> <th>USA</th> <th>USA</th> <th>India</th> <th>India</th> <th>India</th> </tr> <tr> <th>Units</th> <th>Goods</th> <th>USD</th> <th>Units</th> <th>Goods</th> <th>INR</th> </tr> </thead> <tbody> <tr> <td>4</td> <td>rice</td> <td>1</td> <td>20</td> <td>Rice</td> <td>40</td> </tr> <tr> <td>20</td> <td>Wheat</td> <td>2</td> <td>10</td> <td>Wheat</td> <td>80</td> </tr> </tbody> </table> <p>Exchange rate <input type="checkbox"/> 40/US\$</p>	USA	USA	USA	India	India	India	Units	Goods	USD	Units	Goods	INR	4	rice	1	20	Rice	40	20	Wheat	2	10	Wheat	80	Analyze	CMBB57.08
USA	USA	USA	India	India	India																						
Units	Goods	USD	Units	Goods	INR																						
4	rice	1	20	Rice	40																						
20	Wheat	2	10	Wheat	80																						

12	Suppose the spot rates for the deutschemark, sterling pound and SWISS FRANCE are \$0.32 and \$0.38 respectively. The associate 90-days interest rates are 8%,16% and 4%,the U.S.	Analyze	CMBB57.08																																		
13	State the recommendations made by the sodhani committee and also state RBI's exchange control norms.	Remember	CMBB57.08																																		
14	Classify the exposure to foreign exchange risk and give the example of foreign exchange risk	Remember	CMBB57.08																																		
15	Describe about transaction risk and its measurements. Analyze briefly the accounting treatment of transaction exposure.	Understand	CMBB57.08																																		
16	Elucidate about operating risk. Enlist the determinations of operating exposure. Evaluate how operating exposure is managed.	Remember	CMBB57.08																																		
17	Summarize the relative form of purchasing power parity. Highlight the reasons for purchasing power parity not applicable.	Understand	CMBB57.08																																		
18	Describe about international fisher effect and its implication for foreign investors. Explicit how it manages different types of rates.	Understand	CMBB57.08																																		
19	Enlist the relationship between interest rate, inflation rate and exchange rate.	Remember	CMBB57.08																																		
<b>PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)</b>																																					
1	<p>Following is the list of prices of selected countries in two countries at two different points of time exchange rates prevailing are also given. Justify whether purchasing power parity holds good.</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th rowspan="2">Commodities</th> <th colspan="2">Country A</th> <th colspan="2">Country B</th> </tr> <tr> <th>19x1</th> <th>19x2</th> <th>19x1</th> <th>19x2</th> </tr> </thead> <tbody> <tr> <td>C1</td> <td>50</td> <td>60</td> <td>70</td> <td>84</td> </tr> <tr> <td>C2</td> <td>100</td> <td>120</td> <td>120</td> <td>144</td> </tr> <tr> <td>C3</td> <td>80</td> <td>96</td> <td>105</td> <td>126</td> </tr> <tr> <td>C4</td> <td>60</td> <td>72</td> <td>75</td> <td>90</td> </tr> <tr> <td>C5</td> <td>40</td> <td>48</td> <td>50</td> <td>60</td> </tr> </tbody> </table>	Commodities	Country A		Country B		19x1	19x2	19x1	19x2	C1	50	60	70	84	C2	100	120	120	144	C3	80	96	105	126	C4	60	72	75	90	C5	40	48	50	60	Analyze	CMBB57.07
Commodities	Country A		Country B																																		
	19x1	19x2	19x1	19x2																																	
C1	50	60	70	84																																	
C2	100	120	120	144																																	
C3	80	96	105	126																																	
C4	60	72	75	90																																	
C5	40	48	50	60																																	
2	On a specific data spot rate is DM1=\$ 6.60. the one year risk free nominal interest rates are 6% and 11% in US and Germany respectively. Solve for the one year forward rate for interest rate parity to exist.	Analyze	CMBB57.07																																		
3	In January, the 1 year interest rate is 4% on Deutschmark and 6% on Pound Sterling. The spot exchange rate is £0.4322=¥1. If in 1 year, spot rate is likely to rise to £ 0.4700, estimate what would happen to UK interest rate.	Analyze	CMBB57.07																																		
4	<p>The following rates quoted in the forex market on a particular day</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Currency</th> <th>Foreign currency per \$ (US)</th> </tr> </thead> <tbody> <tr> <td>British pound</td> <td>0.62</td> </tr> <tr> <td>Swedish krona</td> <td>6.40</td> </tr> <tr> <td>Italian Lira</td> <td>1300.00</td> </tr> <tr> <td>Japanese yen</td> <td>140.00</td> </tr> <tr> <td>Swiss frank</td> <td>1.50</td> </tr> </tbody> </table> <p>Using the above information calculate the number of</p> <ol style="list-style-type: none"> <li>British pounds that can be acquired for \$100</li> <li>Swedish krona that can be required for \$40</li> <li>Dollars that 200 Swiss franks can buy</li> <li>Italian Lira that can be acquired for \$10</li> <li>Dollars that 1000 Japanese yens will buy</li> </ol>	Currency	Foreign currency per \$ (US)	British pound	0.62	Swedish krona	6.40	Italian Lira	1300.00	Japanese yen	140.00	Swiss frank	1.50	Analyze	CMBB57.07																						
Currency	Foreign currency per \$ (US)																																				
British pound	0.62																																				
Swedish krona	6.40																																				
Italian Lira	1300.00																																				
Japanese yen	140.00																																				
Swiss frank	1.50																																				
5	Calculate the 3 months forward exchange rate US \$/dm, if the current rate is DM 1.4892 per US\$ and 3 months annualized rates are 4% (US \$) and 4.5% (Deutschmark)	Analyze	CMBB57.07																																		
6	<p>Solve if there are any arbitrage gain possible from the data given below</p> <ul style="list-style-type: none"> <li>□ 55.500 = £ 1 in London</li> <li>□ 35.625 = \$ 1 in Delhi</li> <li>\$ 1.5820 = £ 1 in New York</li> </ul>	Analyze	CMBB57.08																																		

7	In July, the 1 year interest rate is 4% on swissfrank and 13% on us dollar. a) If the current exchange rate is SFr1=\$ 0.63, estimate the expected future exchange rate in 1 year b) If a change in expectation regarding future US inflation causes the expected future spot rate to rise to \$ 0.70, analyze what should happen to US interest rate.	Analyze	CMBB57.08
8	In July, the one year interest rate is 12% on British pound, 9% on US dollars. a) If the current exchange rate is \$ 1.63= £ 1, solve for the expected future exchange rate in 1 year b) Suppose a change in expectations regarding future US inflation causes the expected rate to decline to \$ 1.52=£1, analyze what should happen to the US interest rate.	Analyze	CMBB57.08
9	a) Calculate ₹/lira rate at the end of the year. b) Assuming Fisher's equation holds good and that the Indian and Italian financial markets are perfectly integrated, if the real interest in Italy is 5% p.a. and the Italian rate are as above, calculate normal interest rate in India and Italy.	Analyze	CMBB57.08

### UNIT-V

#### ASSET-LIABILITY MANAGEMENT

#### PART-A (SHORT ANSWER QUESTIONS)

1	State FDI and list out the benefits to home country in FDI.	Understand	CMBB57.09
2	Enlist what should be the government initiatives to attract more FDIs in India.	Understand	CMBB57.09
3	Elucidate about the behavioral approach to FDI.	Understand	CMBB57.09
4	Interpret the growth of FDI.	Remember	CMBB57.09
5	State the term 'cost of capital'.	Remember	CMBB57.09
6	Describe 'International Equity market'.	Understand	CMBB57.09
7	Describe briefly about international bond investing	Remember	CMBB57.09
8	Enlist the benefits of International Equity investing.	Understand	CMBB57.09
9	List out the risks in International Equity investing.	Understand	CMBB57.09
10	Summarize about American Depository Receipts.	Remember	CMBB57.09
11	Elucidate what do you know about global Depository Receipts.	Remember	CMBB57.09
12	Interpret about parallel loans.	Understand	CMBB57.10
13	Enlist the methods used in monitoring receivables.	Understand	CMBB57.10
14	Enlist in detail about different forms of credit.	Remember	CMBB57.10
15	Describe the 'letter of credit'.	Understand	CMBB57.10
16	Summarize what is 'counter trade' and enlist its different forms.	Remember	CMBB57.10
17	Explore how American economies recover after major collapse of their banking system.	Remember	CMBB57.10
18	Infer how subprime crisis affect globally.	Remember	CMBB57.10
19	Narrate a short paragraph on international capital budgeting.	Remember	CMBB57.10
20	Enlist recent amendments in Exim policy.	Remember	CMBB57.10

#### PART-B (LONG ANSWER QUESTIONS)

1	Elucidate foreign direct Investment and describe the foreign direct investment strategies.	Remember	CMBB57.09
2	Summarize the types of foreign direct investment and elucidate the barriers of foreign direct investment.	Remember	CMBB57.09
3	Highlight the costs and benefits of foreign direct Investment and extend how to associate with home and host country.	Understand	CMBB57.09
4	Summarize the various theories of foreign direct Investment and enlist the highlights of these theories.	Understand	CMBB57.09

5	Elucidate about capital budgeting in International scenario and enlist its approaches.	Remember	CMBB57.09														
6	Summarize the NPV technique in capital budgeting approach and justify how it is different from APV technique.	Understand	CMBB57.09														
7	Enumerate the complexities in an overseas capital budgeting proposal for MNC's.	Understand	CMBB57.09														
8	Summarize how you would derive a required rate of return for your capital budgeting analysis. Infer the information you would use to derive the required rate of return.	Remember	CMBB57.09														
9	Enlist and describe are the factors influencing multinational capital structure decision of MNC's.	Understand	CMBB57.09														
10	Infer how the cost of capital of an MNC be different from that of a domestic firm.	Remember	CMBB57.09														
11	Describe what you mean by International diversification. Elucidate the procedure for measuring total return for foreign portfolio investment.	Understand	CMBB57.10														
12	Enlist the modes of International portfolio diversification and summarize how diversification can take place through mutual funds, through country funds, hedge funds.	Understand	CMBB57.10														
13	Distinguish how Euro bond market differs from domestic bond market. Summarize the market features and regulations.	Understand	CMBB57.10														
14	Elucidate the various techniques or ways to optimize cash inflows. Enlist the merits and demerits.	Understand	CMBB57.10														
15	Interpret the factors effecting international equity returns like Macroeconomic factors, exchange rates.	Remember	CMBB57.10														
16	Summarize the different stages involved in the issue of international bonds.	Remember	CMBB57.10														
17	Describe what receivable management is. Highlight its costs and benefits and summarize the various techniques.	Understand	CMBB57.10														
18	Distinguish how the cost of capital of an MNC is different from that of a domestic firm.	Remember	CMBB57.10														
19	Describe the different modes of payment in international trade, summarizing the repayment method, letter of credit, drafts, consignment and open account methods.	Remember	CMBB57.10														
20	Explicit in detail Exim policy of 2002-2007 and summarize the special economic zones, employment economic zones, growth oriented and technology oriented policies.	Remember	CMBB57.10														
<b>PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)</b>																	
1.	<p>Calculate the NPV of a project when cost of capital is 10%. Initial investment is 12lakhs. The project has a six year life with zero solvage value. Depreciation is on straight line basis. Earnings before depreciation and taxes, over the six year period are</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> <th>6</th> </tr> </thead> <tbody> <tr> <td>Cash flow</td> <td>4 lac</td> <td>5 lac</td> <td>3 lac</td> <td>2 lac</td> <td>3 lac</td> <td>2 lac</td> </tr> </tbody> </table> <p>Tax rate is 50% permanent increase in working capital is ₹ 75,000</p>	Year	1	2	3	4	5	6	Cash flow	4 lac	5 lac	3 lac	2 lac	3 lac	2 lac	Analyze	CMBB57.09
Year	1	2	3	4	5	6											
Cash flow	4 lac	5 lac	3 lac	2 lac	3 lac	2 lac											

2	<p>Project A and B require an investment of 20,000 each, the life of both the projects is five years. The information about projected cash inflows and probabilities is given below:</p> <table border="1" data-bbox="293 264 1024 447"> <thead> <tr> <th>Type</th> <th>Project A</th> <th>Probability</th> <th>Project B</th> <th>Probability</th> </tr> </thead> <tbody> <tr> <td>Optimistic</td> <td>8,00,000</td> <td>0.4</td> <td>10,00,000</td> <td>0.2</td> </tr> <tr> <td>Moderate</td> <td>7,00,000</td> <td>0.2</td> <td>9,00,000</td> <td>0.1</td> </tr> <tr> <td>Poor</td> <td>6,00,000</td> <td>0.3</td> <td>7,00,000</td> <td>0.4</td> </tr> <tr> <td>Pessimistic</td> <td>5,00,000</td> <td>0.1</td> <td>6,00,000</td> <td>0.3</td> </tr> </tbody> </table> <p>Calculate NPV and rank the projects. The cost of capital of the company is 10% P.A.</p>	Type	Project A	Probability	Project B	Probability	Optimistic	8,00,000	0.4	10,00,000	0.2	Moderate	7,00,000	0.2	9,00,000	0.1	Poor	6,00,000	0.3	7,00,000	0.4	Pessimistic	5,00,000	0.1	6,00,000	0.3	Analyze	CMBB57.09
Type	Project A	Probability	Project B	Probability																								
Optimistic	8,00,000	0.4	10,00,000	0.2																								
Moderate	7,00,000	0.2	9,00,000	0.1																								
Poor	6,00,000	0.3	7,00,000	0.4																								
Pessimistic	5,00,000	0.1	6,00,000	0.3																								
3	<p>Estimate the break even salvage value if,</p> <p>a) Initial investment is /USD 30 million</p> <p>b) The net cash inflow during the first and second year respectively is 20 million and 15 million.</p> <p>c) Discount rate is 10%</p>	Analyze	CMBB57.09																									
4.	<p>The book values and market values of various sources of capital for a firm along with their costs (percentage) are given below,</p> <table border="1" data-bbox="293 768 1016 1125"> <thead> <tr> <th>Source of finance</th> <th>Book-values Rs.</th> <th>Market-values Rs.</th> <th>Cost (%)</th> </tr> </thead> <tbody> <tr> <td>Equity share capital</td> <td>6,00,000</td> <td>9,00,000</td> <td>16</td> </tr> <tr> <td>Retained earnings</td> <td>2,00,000</td> <td>3,00,000</td> <td>16</td> </tr> <tr> <td>Preference capital</td> <td>3,00,000</td> <td>3,80,000</td> <td>11</td> </tr> <tr> <td>Debt</td> <td>5,50,000</td> <td>6,25,000</td> <td>9</td> </tr> </tbody> </table> <p>Using the above information</p> <p>i) Solve for WACC based on book-value weights and</p> <p>ii) WACC based on market-value weights assuming a tax rate of 33% for the company.</p>	Source of finance	Book-values Rs.	Market-values Rs.	Cost (%)	Equity share capital	6,00,000	9,00,000	16	Retained earnings	2,00,000	3,00,000	16	Preference capital	3,00,000	3,80,000	11	Debt	5,50,000	6,25,000	9	Analyze	CMBB57.09					
Source of finance	Book-values Rs.	Market-values Rs.	Cost (%)																									
Equity share capital	6,00,000	9,00,000	16																									
Retained earnings	2,00,000	3,00,000	16																									
Preference capital	3,00,000	3,80,000	11																									
Debt	5,50,000	6,25,000	9																									
5.	<p>A company has the following capital structure.</p> <table border="1" data-bbox="293 1304 1016 1486"> <tbody> <tr> <td>12% Debentures</td> <td>□ 26,00,000</td> </tr> <tr> <td>8% preferred stock</td> <td>□ 20, 000</td> </tr> <tr> <td>Share premium</td> <td>□ 1,00,000</td> </tr> <tr> <td>Equity stock (5,00,000 shares of Rs. 50 each)</td> <td>□ 25,00,000</td> </tr> </tbody> </table> <p>The equity stock is currently selling at Rs 60 per share and is expected to get the dividend of Rs. 4 stock holders anticipating that the equity stock divided will grow at a rate of 6% per annum in the near future. The company has a tax rate of 605. From the above information calculate the cost of capital of the company.</p>	12% Debentures	□ 26,00,000	8% preferred stock	□ 20, 000	Share premium	□ 1,00,000	Equity stock (5,00,000 shares of Rs. 50 each)	□ 25,00,000	Analyze	CMBB57.09																	
12% Debentures	□ 26,00,000																											
8% preferred stock	□ 20, 000																											
Share premium	□ 1,00,000																											
Equity stock (5,00,000 shares of Rs. 50 each)	□ 25,00,000																											
6	<p>Interpret briefly cash management and enlist the various objectives to cash management followed by MNCs.</p>	Remember	CMBB57.09																									
7	<p>Unit A has to pay US \$20 million to unit B and \$15 million to unit C. Unit B has to pay \$10 million to unit C. Unit C has to pay \$5 million to unit B and \$9 million to unit A. Calculate what will be the amount of funds movement after multilateral netting.</p>	Analyze	CMBB57.09																									
8	<p>Elucidate what are the various types of international bonds and briefly explain every bond.</p>	Remember	CMBB57.10																									

9	Summarize your understanding on management of inventory and describe its objectives and importance.	Remember	CMBB57.10
10	A firm has credit sales amounting ₹ 32, 00, 000. The sale price per unit is ₹ 40. The variable cost is ₹ 25 per unit, while the average cost per unit is ₹ 32. The average age of accounts receivables of the firm is 72 days. The firm is planning to tighten credit standards. It will result in a fall in the sales volume to ₹ 28, 00, 000 and the average age of accounts receivable to 45 days. Assume a 20% rate of return. Examine the proposal under consideration and is feasible.	Analyze	CMBB57.10

**Prepared by:**

Mr. N. Suresh Assistant professor, MBA

**HOD, MBA**