Institute of Management Technology
Centre for Distance Learning, Ghaziabad
Recognised by University Grants Commission

IMT- 86

INTERNATIONAL FINANCIAL MANAGEMENT

Notes:

a. Write answers in your own words as far as possible and refrain from copying from the text books/handouts.
b. Answers of Ist Set (Part-A), IInd Set (Part-B), IIIrd Set (Part – C) and Set-IVth (Case Study) must be sent together.
c. Submit the assignments in IMT CDL H.O.along with the assignments Question Papers for evaluation .
d. Only hand written assignments shall be accepted.

A. First Set of Assignments	5 Questions, each question carries 1.5 marks.
B. Second Set of Assignments	5 Questions, each question carries 1.5 marks.
C. Third Set of Assignments	5 Questions, each question carries 1.5 marks. Confine your answers to 150 to 200 Words.
D. Forth Set of Assignments	Two Case Studies : 7.5 Marks. Each case study carries 3.75 marks.

SECTION - A

1. What kind of finances are available from foreign sources? Explain in detail the role of various institutions providing foreign finance?
2. Exchange rate

Exchange rate	Type	Period	Conversion rate
a. CAN $ to USD	SPOT	Today	1.0401
b. CAN $ to USD	FORWARD	3 months	1.0329
c. Six months interest rate			
d. USD	9% P.A,		
e. CAN$	6% P.A.		

3. Discuss about the following in detail with example.
   a. Forward contract
   b. Future contract
4. Explain how an Indian company can make investments abroad on fast track.
5. What are the ‘Rule’ requirements for a company to get listed on NASDAQ?

SECTION - B

1. Give the status of forex market in the present era.
2. A US MNC has its subsidiary in India. 10% preference shares of the face value of Rs. 50 have been issued by the subsidiary, to be redeemed at year end 8. Flotation costs are expected to be 4%. These costs can be amortized for tax purpose during the 8 years at a uniform rate. The corporate tax rate is 35%. Determine the cost of preference shares from the perspective of the subsidiary.
3. Why was the fixed rate system was replaced by the floating exchange rate system?
4. Assessing and managing risk is a complex and critical task for international projects. Risks in terms of international projects can be categorized into the following. Discuss.
5. What is the difficulty in extending the domestic CAPM to world environment?

SECTION - C

1. Briefly outline the measure to avoid double taxation.
2. What is country risk? Discuss its elements.
3. Should international firms require higher rates of return on foreign projects than identical projects at home? Comment.
4. What is a foreign exchange market? Explain the functions of a foreign exchange market.
5. One French franc could be purchased in the foreign exchange market for 21 US cents today. If the Franc appreciated 10% tomorrow against the dollar, how many Francs would a dollar buy tomorrow.?

CASE STUDY - 1

1. The current value of the S & P 500 index is \$ 1000. The value of portfolio is \$5 million. Beta of portfolio is 1.5. One futures contract is for delivery of \$ 250 times the index.

a) What position in futures contracts on the S & P 500 is necessary to hedge the portfolio?

b) Use the data for the value of the index and the future price of in the index, both 3 months aheads, to assess the performance of the stock index hedge by recording the gain on the futures position, the return on the market, the expected return on the portfolio, the expected portfolio value in 3 months(including dividends) and the total expected value of the position in 3 months .

Scenario	Value of index futures	Price of index
1	900	902
2	950	952
3	1000	1003
4	1050	1053
5	1100	1103

The current futures price is \$ 1010. The dividends rate on the index is 1% per annum. The risk-free rate is 4% per annum.

CASE STUDY - 2

Suppose a subsidiary of America currently has an annual sale of \$ 50,00,000 with 45 days credit terms. The sales of the subsidiary can be increased by 6% or \$ 3,00,000 if the company relaxes its credit period to 120 days. With this extension in sales, the cost of goods sold is \$ 1,00,000. Monthly credit expenses of the subsidiary are 1% in financing charges. The dollar is expected to decrease in value on an average of 0.5% every 30 days. If the currency change is not considered then calculate the total financing cost .