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DATE:11-03-22

Registration number:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BENGALURU-27**

**BCOM – V SEMISTER**

**END SEMISTER EXAMINATION: OCTOBER 2021**

**(Examination conducted January-March 2022)**

**BC DEF 5618 – International Finance**

Time- 2 ½ hrs Max Marks-70

**This paper contains two printed pages and four parts**

**Section A**

**I.** Answer ***any five*** of the following (**2 x 5 = 10 marks)**

1. Calculate value date for a two-month contract entered on 29th December, 2021?
2. What is meant by base currency? Give an example
3. What are Exotic options?
4. Differentiate FDI and FII
5. What are euro bonds?
6. Mr Virat has bought put option from Mr. Samrat to convert his foreign winnings to INR at a strike price of ₹ 65 per $. The premium on the call is ₹ 2. The maturity period is 3 months. If the exchange rate after 3 months in the market is quoted at ₹ 67 per $, Explain whether Mr. Virat is ATM or ITM or OTM?

**Section B**

**II.** Answer ***any three*** of the following (**5 x 3 = 15 marks)**

1. The following are the quotes given by ICICI bank, Shanthinagar:

Rs 68.7030/50 per USD

Rs 90.8910/25 per GBP

At the same time DASS exchange trader, on brigade Road has the following rate GBP1.41 per USD

Find out if exist any possibility of arbitrage.

1. What is ‘exchange exposure’ risk? Explain various exposures in international business
2. Write a note on the Liberalized Remittance Scheme (LRS)
3. What are ADR’s and GDR’s? explain its benefits.

**Section C**

**III.** Answer ***any two*** of the following (**15 x 2 = 30 marks)**

1. Explain various determinants of exchange Rates
2. What is hedging? Briefly explain various types of hedging instruments.
3. FDI and FII are boon or curse? Discuss

**Section D**

**IV. Answer the following (15 x 1=marks)**

1. Parrott Co is a UK based company. It is considering a 3 year project in USA. The project will require an initial investment of $81m and will have a residual value of $10m.

The project's pre-tax net USD inflows are expected to be:

Year 1 - 35m  
Year 2 - 80m  
Year 3 - 50m

The UK parent company will charge the overseas project with £2m of management charges each year. US tax rate is 20% and is paid in the year it arises. losses are carried forward and netted off the first available profits for tax purposes. Tax allowable depreciation will be granted on a straight line basis, and any residual value will be taxable at 20%. UK charges 15% tax on the funds remitted. Parrott Co recently undertook a similar risk project in USA and used 11% as a suitable discount rate. The current exchange rate is given as GBP/USD: 1.7234. Expected inflation rates are:

|  |  |  |
| --- | --- | --- |
| Year | USA | UK |
| 1 | 5% | 2% |
| 2 | 3% | 4% |
| 3 | 4% | 4% |

* 1. Calculate expected spot rate for the next three years. (3marks)
  2. what is withholding tax? How does it impact an international project? (2 marks)
  3. Calculate the NPV of the project. Should Parrott Co accept? (10 Marks)