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ST. JOSEPH'S COLLEGE (AUTONOMOUS) BENGALURU-27

SEMESTER EXAMINATION- NOVEMBER 2020

B.COM: V SEMESTER

BCDEF 5618: INTERNATIONAL FINANCE

TIME: $2^{1/2}$ Hour **MAX. MARKS: 70 Marks**

SECTION A

Answer any FIVE of the following questions. Each question carries two marks. (5x2=10)

1. Calculate forward premium or discount for a 60 day contract:
   Spot Rate:$ 0.0576/Rs
   Forward Rate:$0.0500/Rs
2. Write a short note on the regulators of FDI and FII's in India
3. Explain the term "Call Option" and "Put Option"
4. Name any two issues in the multinational capital budgeting.
5. Mr Karthik has sold put option to Mr. Hardik to convert his foreign winnings to INR at a strike price of 75 per $. The maturity period is 3 months. If the exchange rate after 3 months in the market is quoted at 77 per $. Explain whether Mr.Karthik is ATM or ITM or OTM?
6. Give the meaning of arbitrage

SECTION B

Answer any THREE of the following questions. Each question carries five marks. (3x5=15)

7. Consider the following: AUD 0.4560/$ bid and EUR 0.4570/$ ask
   a) Explain the given quotation
   b) What is cost of buying AUD 250000?
   c) How much would you receive by selling 125000 AUD ?
   d) What is the cost of buying USD 75000?
   e) What is your receipt if you sell USD 60000?
8. Write a note onthe ADR and its issue procedure.
9. Discuss various exchange control restrictions on remittance different tax systems
10. Mr. Bernard specializes in cross-rate arbitrage. He notices the following quotes:
    Swiss franc/US dollar = 1.5971/1.5975
    Australian dollar/US dollar = 1.8215/1.8225
    Australian dollar/Swiss franc = 1.1440/1.1450
    Ignoring transaction costs, does Bernard have an arbitrage opportunity based on these quotes?

SECTION C

Answer any TWO of the following questions. Each question carries Fifteen marks. (2x15=30)

11. Explain various factors that influence exchange rate?
12. Discuss the various FDI policies of Government of India and its advantages.
13. What are derivatives? Explain the various derivatives instruments in terms of foreign exchange transaction

SECTION D

Answer the following compulsory question. The question carries Fifteen marks. (1x15=15)

14. Wildcraft, a Bangalore based manufacturing company, has no existing business in France but is considering the establishment of a subsidiary there. The following information is given to asses this project.The initial investment in plant required is FF60 million. The existing spot rate is $ 0.20, the initial investment in Dollars is $12 million. The project will be terminated at the end of year 3, when the subsidiary will be sold. The price, demand and variable cost of the product in France are follows:

Year	Price	Demand	Variable Cost
1	FF 600	40,000 Units	FF 25
2	FF 650	50,000 Units	FF 30
3	FF 700	60,000 Units	FF 40

The fixed costs are estimated to be FF 5 million every year.

The exchange rate of the French franc is expected to be $ 0.22 at the end of year 1, $0.25 at the end of year 2 and $ 0.28 at the end of year 3.

The Income tax rate is 50% for all the companies in France.The French government will impose a withholding tax of 10% on earnings remitted by the subsidiary.The plant and equipment are depreciated over 10 years using straight line depreciation.

You are required to

a) Asses the project and suggest should Wildcraft accept this project?
b) Will your answer be different, if subsidiary requires an additional working capital of FF 10 Million and wildcraft makes an arrangement with the local bank in France. However French subsidiary will pay the interest only, at the rate of 12% every year.

*********** End of Question Paper ****************