ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27

M.COM - III SEMESTER (Finance Elective)

SEMESTER EXAMINATION: OCTOBER 2019

MCODEF9418-RISK MANAGEMENT & FOREX MANAGEMENT

Time- 2 1/2 hrs   **Max Marks-70**

This paper contains three printed pages and four parts

SECTION-A

Answer any TEN of the following questions. Each question carries two marks. (10x2=20)

1) Define Risk Management
2) Suppose the exchange rate between USD and Swiss franc is SFr 1.6 = $1 and the exchange rate between the dollar and the British pound is 1 pound = $1.50. What is the cross rate between francs and pounds?

3) If the price of the Big Mac is $2.50 in the U.S. and 500 foreign units (F) in the foreign nations, then the predicted or implied exchange rate is?

4) Which of the following is not generally an internal control activity?

       a. Establishing clear lines of authority to carry out specific tasks

       b. Physically counting inventory in a perpetual inventory system

       c. Reducing the cost of hiring seasonal employees

       d. Limiting access to computerized accounting record.

5) What is the basic relationship between risk and return?
6) What is Arbitrage?
7) What is an Interest Rate Collar?
8) Give the meaning of Enterprise Risk Management.
9) What is Bid-Ask Spread?
10) What is a financial swap?
11) State the participants in the Forex market
12) State the official currency of the Following countries:
     a) South Korea
     b) UAE
     c) Brazil
     d) Philippines

SECTION- B

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

13) Differentiate between Risk & Uncertainty.
14) Is diversification limited to investment in different asset classes? Discuss.
15) The Wayne Manufacturing Company purchases a certain standard part from three different suppliers: A, B, and C. Supplier A supplies 60% of the demand for these parts, B supplies 30%, and C supplies 10%. The quality of parts varies among the suppliers, with suppliers A, B, and C having reject rates of 0.25%, 1%, and 2%, respectively.

   a) a.What is the probability that a randomly selected part is defective?

   b) b. If a defective part is found, which supplier is the most likely source?

16) Explain the differences between total risk, unsystematic risk, and systematic risk. Identify which risk is measured by standard deviation and which is measured by beta.
17) Discuss the types of Foreign Exchange exposure.

SECTION-C

Answer any TWO of the following questions. Each question carries TEN marks. (2x10=20)

18) Define Risk & Discuss briefly the different types of Risks.
19) What is Foreign Exchange? Explain the factors determining the foreign exchange rate.
20) Explain the Balance of Payments theory of Exchange rate with its merits & criticism.

SECTION -D

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

21) Mr. Amit is the CFO of Accelerate Automobile Public Manufacturing company which manufactures auto spare parts. The company which started as a regional manufacturer has evolved into a national product provider. Mr.Amit has been part of the team since he gained his Credit Analyst certification from New York USA, and has helped the company manage the success it has acquired over the past years.

With the recent credit market situation and change in customers preference towards Electrical Vehicles (EV), Mr.Amit wants to make sure his company will be able to meet the financial obligations it has committed towards its stakeholders.

Mr.Amit & his team decide to anlayse the firm's position using the Original Altman Z Score for public manufacturing companies as a Risk Modeling tool. With this decision, he begins assembling company financial reports to find the factors of the Altman Z Score equation as they relate to his company.

The Company financial details furnished is as follows:

Particulars	Amount (Rs in 000's)
Net Sales	4015.56
Retained Earnings	3609.07
Total Assets	13865.62
Total Liabilities	13865.62
Working Capital	8669.46
Market value of Equity	58977.42
EBIT	1726.66

You are required:

1) To Explain the Original Altman Z Score for public manufacturing companies. (5 marks)

2) Calculate the Altman Z Score for the above data and give your interpretations. (10 marks)

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