DMM-5539

M.B.A. (F.T.) (Sem. IV) (CBCS) & (E.) (Sem. IV) (CBS) (Reg. & New Course - ATKT) Examination

March / April – 2016

International Financial Management

Time : 3 Hours] [Total Marks : **70/100**

Instructions : (1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :

☛ M.B.A. (F.T.) (Sem. IV) (CBCS) & (E.) (Sem. IV) (CBS) ....

Name of the Subject :

☛ **International Financial Management**

☛ Subject Code No. : 5 5 3 9 ☛ Section No. (1, 2,.....) : Nil

Seat No. :

Student's Signature

(2) Marks are indicated on right.

(3) Q. 1 is compulsory and write any four from Q. 2, 3, 4, 5, 6 and 7.

1. **(a)** Interest rate in India is 8% p.a. and interest rate in Bangladesh is 10% p.a. Find the break even exchange rate at the end of three months. The present exchange rate is ₹0.50 per Bangladesh Takka. **(07/10)**

   (b) Explain Leading and Lagging **(07/10)**

2. **(a)** The parents opportunity cost of fund is 10% and marginal tax rate are24% of parent and 30% of affiliate. The parent earns 8% on deposit, bank charges 9% on loan to affiliate and local currency devalues by 13% during course of loan. Find the effective cost of back to back loan. **(07/10)**

   (b) A foreign project has a beta of 1.12. The risk free return is 8% and the required return on the market is estimated at 17%. Calculate Project's cost of capital. **(07/10)**

3. **(a)** An Indian affiliate owes $ 10 million to U.S. unit. The timing of the unit can be changed upto 90 days in either direction. U.S. needs funds and India has access. The borrowing rate is 3% in U.S. and lending rate in India is 2%. Find the net savings.

(b) The Rice Corporation is a manufacturer of Ricebran oil, it needs to acquire 20 million in funds in today to expand its facilities Bank has offered them loan at 12% payable at maturity or 11% loan on discount basis which loan should the Rice Corporation choose? **(07/10)**

4. Polestar's Canadian subsidiary sells 1500 trucks monthly to the French affiliate at a transfer price of $27000/unit. Marginal tax rates on corporate income are 45% in Canada & 50% in France.

i. At what transfer price will corporate taxes paid be minimized, if transfer price can be set at any level between $ 25000 & $ 30000. Justify.

ii. If French Government imposes an Ad Valorem tariff of 15%, how would this affect the optimal transfer pricing strategy?

iii. If the transfer price of $27000 is set in French Francs and the French Franc revalues by 5%, what will happen to the firm's overall tax bill? Consider the tax consequences both with & without 15% tariff. **(14/20)**

5. Argentina has a high interest rate, and its currency is expected to strengthen against dollar over time. Chile has a low interest rate, and its currency is expected to weaken against dollar over time. Both the countries have imposed 'blocked funds' restriction over the next five years on both the subsidiaries owed by US Company. Which subsidiary will be more adversely affected by blocked funds, assuming that there are limited opportunities for corporate expansion in both countries. **(14/20)**

6. Write Short Note **(14/20)**

   i. Inter-Company Loans
   ii. Dividend Policy

7. 'Extending CAPM to global context and integration of world capital market is difficult'. Explain **(14/20)**