

AS-767

M.B.A. (Semester—III) Examination
INTERNATIONAL FINANCIAL MANAGEMENT
Paper—MBA/3104/F

Time : Three Hours]

[Maximum Marks : 70

Note :—(1) Attempt **ALL** questions.

(2) Figures to the right indicate marks.

SECTION—A

1. (a) "The I.M.F. is a financial co-operative in some ways like a credit union". Do you agree ?
Give reasons. 14

OR

- (b) Do you agree that floating exchange rate regime is a better option than fixed exchange rate regime ? 14

SECTION—B

2. (a) "Debt is the cheapest source of finance". Therefore corporate should have their capital structure consisting of debt and the minimum required equity. Give reasons if you agree with this statement. 7
- (b) Shares of company Smith's (Subsidiary of US) are currently selling in the market at FFr 50 in France. The company is expected to pay dividend of FFr 5 per share at the end of the current year. The average expected annual dividend growth rate is 5%. Determine the cost of equity capital according to dividend valuation model. 7

OR

- (c) "We should always borrow in a currency which is likely to devalue as it minimizes financial costs". Do you think it is a good rule of thumb ? Explain. 7
- (d) Suppose a subsidiary company is financed with 30 % equity, 60 % debt and 10 % retained earnings. Their respective after tax costs are 20 %, 10 % and 16 %. Determine the WACC of the subsidiary company. 7

3. (a) What different methods can be used to study political risk ? Explain. 7
- (b) An MNC expects cash flow from its new project to the extent of \$ 5000, \$ 6500 and \$ 6000 resp. during the first 3 yrs of its operation. However due to changes in exchange rate/inflation rate the cash flow is affected and it will change to \$ 4000, \$ 5800 and \$ 5200. Find the magnitude of the possible real operating exposure during the initial year of operation assuming a discount rate of 10 %. 7

OR

- (c) Explain real operating exposure and how does it differ from transaction exposure. 7
- (d) Consider two Indian firms. One manufactures petrochemicals in India and sells them in global markets in competitions with German, American and Japanese firms. The other manufacturers exports pickles and Indian spices to Europe and Middle East competing with other firms which either import these products from India or manufacture them in India and sell in the same markets. Which of these two firms faces the more severe operating exposure to exchange rates ? Explain your answer. 7

SECTION—C

4. (a) Discuss the various types of International Bonds. 7
- (b) What is meant by 'Cash mobilization' ? Why is centralized cash management a necessary pre-requisite to effective cash mobilization ? 7

OR

- (c) How is multinational working capital management different from domestic working capital management ? 7
- (d) What are the factors that one has to consider while investing internationally ? 7

SECTION—D

5. Miss Linda a Millionaire in Sweden had travelled to Thailand one day she had a chance to meet Mr. Somchai who convinced her for investing in Thai Aluminium Project owned by him. However Miss Linda wanted to know the probability of success of the project. She has hired you to consult

and evaluate the project for her on the basis of (NPV and Pay back criteria). The information is provided to you.

(I)	(a)	Investment in Fixed Assets	(000' Baht)
		Machinery & equipment	1,13,200
		Building	50,800
		Land cost	76,000
		Total	<u>2,40,000</u>
	(b)	Working capital Requirement	30,000

(II) Estimated production and Sales Units.

Year	Production of Mill	Production of Anodized
1	300	1500
2	500	2000
3—10	600	2400

(III) **Sales Prices**

Mill finish	@ Baht 85/kg.
Anodized	@ Baht 100/kg.

(IV) **Material cost**

Raw material cost	y—1	Baht—74,880
	y—2	Baht—1,04,000
	y—3—10	Baht—1,24,800
Process cost	4 % of R.M. cost.	
Fuel oil & Lubricants	3 % of R.M. cost.	
Electricity	3 % of R.M. cost.	
Chemical consumption	5 % of R.M. cost.	
Dye cost	5 % of R.M. cost.	

(V) Wages and Salaries.

Local year 1—2	70 persons @ Baht 7,500/month
year 3—10	77 person increase in salary and wages depend on inflation rate which is determined at 3 % average per year
Foreign y—1—2	6 person @ Rs. \$ 3000/month
year 3—10	3 person @ US \$ 3000/month

(VI) Currency conversation rate :

- (a) The foreign exchange conversation rate in this project has been taken as fixed rate at US \$ 1 : Baht-26 for first 5 years.
- (b) US \$ 1 = Baht 30 for next 5 years.

(VII) Depreciation on fixed Asset : Machinery, Equipment and Building 5 % (SLM) maintenance cost is Baht 10,00,000 per year and doubles every five years.

(VIII) Cost of capital 15 % tax rate 30 %.

(IX) Administration and Sales expenses are as follows :

	y—1—2	y—3—10
Printing & Stationery	Baht 1000	Baht 1000
Postage & Comm.	Baht 500	Baht 700
Miscellaneous	Baht 1000	Baht 1500