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Narsee Monjee Institute of Management Studies(NMIMS)

School of Distance Learning (Year 2009-10)

PGDFM/PGDBFM/ADBFM

Year: II Semester III

Subject: International Financial Management

Marks:100

DATE:- 2.01.2010

TIME:- 3.00 PM TO 6.00 P.M.

Time-3 hrs

Instructions:Candidates should read carefully the instructions printed on the question paper and on the cover of the answer book,which is provided for their use.

Question 1 (Attempt any two out of four) **10 marks**

a.Why do nations trade?

b.What is the logic of global business?

c. "Balance of Payments always balance"- Explain this statement

d. What are the benefits of internationalizing the financial system?

Question 2 (Answer any three out of 5) **15 marks**

Write Short notes on (Any Three)

1. Price quotation/Volume quotation
2. Evolution of Indian Exchange rate system
3. Currency Risk Sharing arrangement
4. Forward contracts

5.Factoring

Question 3 (Attempt any three out of 5) **45 marks**

a.What are the problems faced by developing countries in financing foreign trade?

Suggest the way out for this problem

b.Describe the lending programmes of EXIM Bank

c.What are the export declaration forms prescribed by the reserve bank?How are they to be used?

d. What are the innovations in the international capital markets?

e.What is systemic risk?Can international diversification reduce systemic risks?

Question 4 (Read the following case study and answer the questions given below) **30 marks**

(You can make reasonable assumptions wherever necessary while writing the answers)

National Motors,an American Automobile manufacturer is considering to build a new plant in Britain to produce its sports car,called the " Sting".The estimated construction cost of the plant is UK Pound 50 million and construction should be completed in a year.The plant will raise borrowing capacity by about 40 million pound.National motors can reinvest pound 20 million already held in UK.If these funds are repatriated to USA,they would face an effective tax rate of 46%.The inflation in UK is expected to be at 15% ,while that in US is put at 10% on an annual basis.The current exchange rate is spot pound1=$2 and PPP is likely to hold.

National Motors hope to maintain their technological lead in Britain only for five years .The firm expects to sell 10,000 cars per year.the initial sticker price is pound 8000 with current production costs working out at pound 6000 per car.National Motors will be building the Sting in Merseyside an area of heavy unemployment.The British Government has offered a loan of pound 20 million at 10% interest.The loan is to be repaid in five equal instalments . The competitive market rate is 20% while in USA National Motors can borrow at 12%.

The tax rate in Britain is 50%(with permissible depreciation of car plants over five years).The British and USa tax authorities are careful to see that no taxes be saved on that account.National Motors believe that a 20% return is appropriate for purposes of capital budgeting.

Answer the following questions:-

a) Should the Sting be built in UK? What should be the investment strategy?

b) Should the amount held in Britain be reinvested?If so,how much?

c) How much money be borrowed and where?

d) How much equity be raised? Where?

e) What should be the strategy of National Motors for the repatriation of funds from Britain to the USA?