PVP 12

Code: **BA4T6F**

II MBA - II Semester - Regular/Supplementary Examinations
April - 2018

INTERNATIONAL FINANCIAL MANAGEMENT

Duration: 3 hours Max. Marks: 70 M

SECTION-A

1. Answer any FIVE of the following: 5 x 2 = 10 M

a) Current a/c deficit of BOP
b) Gold standard system
c) Process of arbitrage
d) International fisher effect
e) Euro credit market
f) Consignment
g) Parallel loans
h) FEMA

SECTION – B

Answer the following: 5 x 10 = 50 M

2. a) What are the recent EXIM policy regulation and guidelines?

OR

b) Discuss the accounting concepts of BOP.

3. a) Write about the evolution of international monetary system.

OR

b) Define EMU. Explain its advantages and disadvantages.

4. a) State different factors that influence exchange rate. Discuss each factor in detail.

OR

b) Explain the relation between inflation, interest rate and exchange rate.

5. a) What is euro credit market? Explain its advantages and Disadvantages.

OR

b) What is euro currency market? What are Features of it?

6. a) What factors to be considered in international capital Budgeting?

OR

b) What techniques can be employed by an MNC to optimize the cash flow?

SECTION-C

7. Case Study **1x10=10**

Blades, Inc., is a U.S.-based company that has been incorporated in the United States for three years. Blades is a relatively small company, with total assets of only $200 million. The company produces a single type of product, roller blades. Due to the booming roller blade market in the United States at the time of the company's establishment, Blades has been quite successful. For example, in its first year of operation, it reported a net income of $3.5 million. Recently, however, the demand for Blades' "Speedos," the company's primary product in the United States, has been slowly tapering off, and Blades has not been performing well. Last year, it reported a return on assets of only 7 percent. In response to the company's annual report for its most recent year of operations, Blades' shareholders have been pressuring the company to improve its performance; its stock price has fallen from a high of $20 per share three years ago to $12 last year. Blades produces high –quality roller blades and employs a unique production process, but the prices it charges are among the top 5 percent in the industry.

In light of these circumstances, Ben Holt, the company's chief financial officer (CFO), is contemplating his alternatives for Blades' future. There are no other cost-cutting measures that Blades can implement in the United States without affecting the quality of its product. Also, production of alternative products would require major modifications to the existing plant setup. Furthermore, and because of these limitations, expansion within the United States at this time seems pointless.

Ben Holt is considering the following: if Blades cannot penetrate the U.S market further or reduce costs here, why not import some parts from overseas and/or expand the company's sales to foreign countries? Similar strategies have proved successful for numerous companies that expanded into Asia in recent years to increase their profit margins. The CFO's initial focus is on Thailand. Thailand has recently experienced weak economic conditions, and Blades competitors have begun importing production components from Thailand.

Not only would Blades be able to reduce costs by importing rubber and/or plastic from Thailand due to the low costs of inputs, but it might also be able to augment week U.S. sales by exporting to Thailand, an economy still in its infancy and just beginning to appreciate leisure products such as roller blades. While several of Blades' competitors import components from Thailand, few are exporting to the country.

Long- term decisions would also eventually have to be made: maybe Blades, Inc., could establish a subsidiary in Thailand and gradually shift its focus away from the United States if its U.S. sales do not rebound. Establishing a subsidiary in Thailand would also make sense for Blades due to its superior production process. Ben Hold is reasonably sure that Thai firms could not duplicate the high-quality production process employed by Blades. Furthermore, if the company's initial approach of exporting works well, establishing a subsidiary in Thailand would preserve Blades' sales before thai competitors are able to penetrate the Thai market.

As a financial analyst for Blades, Inc., you are assigned to analyze international opportunities and risk resulting from international business. Your initial assessment should focus on the barriers and opportunities that international trade may offer. Ben Holt has never been involved in international business in any form and is unfamiliar with any constraints that may inhibit his plan to export to and import from a foreign country. Mr. Holt has presented you with a list of initial questions you should answer.

1. What are the advantages Blades could gain from importing from and/or exporting to a foreign country such as Thailand?
2. What are some of the disadvantages Blades could face as a result of foreign trade in the short run? In the long run?
3. Which theories of international business described in this chapter apply to Blades, Inc., in the short run? In the long run?
4. What long- range plans other than establishment of a subsidiary in Thailand are options for Blades and may be more suitable for the company?