

September 2014

Master of Business Administration (MBA) Examination
IV Semester**International Strategic Finance**

Time : 3 Hours]

[Max. Marks : 80

Note : Attempt any four questions from Section A. Each question carries 15 marks. Section B is compulsory and carries 20 marks.**Section A**

1. Enumerate similarities and difference between Domestic Financial Management and International Financial Management.
2. Capital Budgeting for foreign is considerable more complex than in domestic case. Explain the factors that add to the complexity and also explain how are they managed?
3. Describe the organization of Foreign Exchange Market and distinguish between the Spot Market and Forward Market.
4. What do you mean by Multinational cash Management? What are the different techniques of International Cash Flow Optimization? Explain.
5. What do you mean by Foreign Exchange Risk Management? Explain the different tools of Foreign Exchange Risk Management.
6. How Multinational Firm determines its Capital Structure and its components?
7. Write short notes on any two of the following :
 - (a) Theories of Foreign Exchange Rate Movement.
 - (b) Fisher Effect.
 - (c) ADR and GDR.
 - (d) Purchasing Power Parity.

Section B

8. Read the case study given below and answer the question given at the end of the case study:

I

Here are the 'excerpts' from a closed room discussion between heads of purchase, marketing, production and the treasurer of Advanced Tectonic Devices. [The dialogues given below might appear to be unduly contrived to an expert. This was necessary for attaining clarity for our purpose and maintaining the printability of the statements : impolite usages are deliberately expunged.]

Head Marketing : See, after a long drawn effort, spread over six months, my boys and girls have managed to get this big # \$ % ^ * @ order totaling equivalent of USD 1.5 million. I had to @ # \$ % ^ & the happiness of all my staff to get this deal going. Despite an international competitive bidding we have got this order for the supply of high precision devices to the European Space Agency for the launch of a Japanese communication satellite. This supply agreement is likely to be signed in anytime over next two weeks. The exact rupee equivalent of this order will be known when the price is frozen, on the date of signing of contract.

Head Production : Thanks to all your efforts and advance planning, we are in a position to meet all deadlines, without an iota of problem. My only concern is about the raw material supply linkage. Give me material today and I will deliver the component without any problem in a matter of Ten days. Add a cushion of two more days, if some rework is required due to material flaw. [Ends this sentence with a deprecating chuckle, obviously directed towards the head of purchase.]

Head Purchase : (He turns to Head Treasury) You # \$ % ^ & * production persons, when will you learn to behave. See, just before coming to this meeting I called the raw material supplier with our dates and quantity. He told me that material for entire order can't be purchased in one lot due to international trade restrictions. This grade of alloy steel is on the international watch list due to possible use in nuclear weapons. Therefore, only a part of total material requirement can be bought at a time. As soon as one lot is consumed in production, we will meet to issue a certificate to this effect, and then only the next lot of high alloy steel can be purchased. He turns to head treasury, See, the payment is to be made every fortnight for raw material (high alloy steel billets) over next six months, in equal installments of USD 100,000 each. Without fail ! Any trouble on that front will jeopardise the entire supply sequence.

Head Marketing : As per the terms of contract, the buyer will be able to pay 50% of the contracted amount once the payload is fitted on the launch rocket in EUR (that is equivalent of USD 750,000) and the remaining 50% (that is equivalent of USD 750,000) immediately after launch of the satellite in JPY.

Head Treasury : [Definitely not amused] What is this @ # \$ % & contract you have drawn. At least you * & % ^ \$ # should consult me before getting into any such commitments. Our chief economist is not

comfortable with the world economy outlook. In her opinion, Japan appears to be heading towards yet another cycle of recession. EUR is likely to strengthen against JPY and USD over next six months. As far as INR is concerned, not much variation is expected over next six months And you expect me to do a profitable (deal under the circumstances !! [leaves the meeting room abruptly, door slams behind him, and some muffled shouts are heard]

Well, as you would have guessed it by now, you are the treasurer who feels slighted due to the process adopted by marketing, purchase, and production heads.

Question : What are the choices available with you to meet these cashflow requirements ? Analyze each possibility in detail and argue for and against each of them.

II

The first part of payment was received as planned. All are happy. The second part, is due. The rocket is successfully launched but there is a problem. Since the time the communication satellite has been deployed, there has been a continuous decline in the bandwidth and transponder hire charges. Your counter party wants to renegotiate the terms of payment.

Question : What will you do ? How you will protect your interest in this situation ?

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