Registration Number:

Date & Session

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BENGALURU -27**

**B.Com–V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2023**

**(Examination conducted in November /December 2023)**

**BCDEF 5423: INTERNATIONAL FINANCE**

Time- 2 hrs Max Marks-60

**This paper contains two printed pages and four parts**

**Section A**

**I.** Answer ***any five*** of the following (**3 x 5 = 15 marks)**

1. Mention any three key features of Euro bond.
2. What are derivatives?
3. Mention any three key differences between hedging and speculation.
4. Mention the advantages of NVP.
5. Expand and explain FCCB.
6. Mention the types of foreign exchange exposure faced by companies.

**Section B**

**II.** Answer ***any two*** of the following (**5 x 2 = 10 marks)**

1. Distinguish between ADR and GDR.
2. Outline the scope of international finance.
3. Briefly explain the internal hedging strategies to manage exchange rate exposures.

**Section C**

**III.** Answer ***any two*** of the following (**10 x 2 = 20 marks)**

1. Discuss the characteristics of masala bonds and its benefits for investors. (5 + 5 marks)

1. GMR Corporation has no existing business in France but is considering the establishment of a subsidiary there. The following information is given to asses this project.

The initial investment in plant required is FF 60 million. The existing spot rate is $ 0.20, the initial investment in Dollars is $12 million. The project will be terminated at the end of year 3, when the subsidiary will be sold. The price, demand and variable cost of the product in France are follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Price | Demand | Variable Cost |
| 1 | FF 600 | 40,000 Units | FF 25 |
| 2 | FF 650 | 50,000 Units | FF 30 |
| 3 | FF 700 | 60,000 Units | FF 40 |

The fixed costs are estimated to be FF 5 million every year. The exchange rate of the French franc is expected to be $ 0.22 at the end of year 1, $0.25 at the end of year 2 and $ 0.28 at the end of year 3. The Income tax rate is 50% for all the companies in France. The French government will impose a withholding tax of 10% on earnings remitted by the subsidiary. The plant and equipment are depreciated over 10 years using straight line depreciation. Present value discount factor is 10%. You are required to;



a) Asses the project and suggest should GMR accept this project?

1. Explain the exchange control restrictions on remittance of different tax systems.

**Section D**

**III. Answer the following (15marks)**

1. The forex market's origin lies in the need for businesses to navigate currency risk in international trade. After World War II, increasing cross-border trade led to concerns about fluctuating exchange rates. This era witnessed the need of derivatives. With the growth of globalization, forex derivatives have evolved to manage this risk effectively. Imagine a global tech company exporting to multiple countries. Faced with volatile currency markets, they adopt forex derivatives instrument as a tool to protect their profits. Explain the various types of derivatives instruments used in forex market with their features.

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