15

BBA in TM, 8th Semester

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ISLAMIC UNIVERSITY OF TECHNOLOGY (IUT)
ORGANISATION OF ISLAMIC COOPERATION (OIC)

DEPARTMENT OF BUSINESS AND TECHNOLOGY MANAGEMENT

Final Examination
Course No. : BTM 4829
Course Title : International Finance

Summer Semester, A. Y. 2021-2022
Time : 3 Hours
Full Marks : 150

Answer all **6 (six)** questions. All questions carry equal marks. Marks in the margin indicate full marks. Do not write on this question paper.

1. a) Do you think the acquisition of a foreign firm or licensing will result in greater growth for an MNC? Which alternative is likely to have more risk? 08 (CO1) (PO1)

   b) Plak Co. of Chicago has several European subsidiaries that remit earnings to Plak Co. each year. Explain how the appreciation of the euro (the currency used in many European countries) would affect Plak's valuation. 08 (CO2) (PO2)

   c) Consider the present political crisis in Pakistan and explain why political risk may discourage international business. 09 (CO2) (PO3)

2. a) Assume the following information: 10 (CO3) (PO3)
   The spot rate of the Canadian dollar is \$.80, the 90-day forward rate of the Canadian dollar is \$.79, the 90-day Canadian interest rate is 4%, and the 90-day U.S. interest rate is 2.5%. Given this information, what would be the yield (percentage return) to a U.S. investor who used covered interest arbitrage? (Assume the investor invests \$1 million.) What market forces would occur to eliminate any further possibilities of covered interest arbitrage?

   b) Explain corporate motives for forecasting exchange rates. 06 (CO1) (PO1)

   c) Discuss the concept of triangular arbitrage and the scenario necessary for it to be plausible. 09 (CO1) (PO1)

3. a) Suppose you just came back from Canada, where the Canadian dollar was worth \$.70. You still have C\$200 from your trip and could exchange them for dollars at the airport, but the airport foreign exchange desk will only buy them for \$.60. Next week, you will be going to Mexico and will need pesos. The airport foreign exchange desk will sell you pesos for \$.10 per peso. You met a tourist at the airport who is from Mexico and is on his way to Canada. He is willing to buy your C\$200 for 1,300 pesos. Should you accept the offer or cash the Canadian dollars in at the airport? Explain. 08 (CO3) (PO3)

   b) Should the governments of Asian countries allow their currencies to float freely? What would be the advantages of letting their currencies float freely? What would be the disadvantages? 10 (CO2) (PO2)

c) Explain with an example how the product cycle theory relates to the growth of an MNC. 07 (CO1) (PO1)

4. a) Why do interest rates vary among countries? Why are interest rates normally similar for those European countries that use the euro as their currency? Offer a reason why the government interest rate of one country could be slightly higher than the government interest rate of another country, even though the euro currency is used in both countries. 15 (CO3) (PO4)

b) Assume that the U.S. inflation rate becomes high relative to Canadian inflation. Other things being equal, how should this affect the (i) U.S. demand for Canadian dollars, (ii) supply of Canadian dollars for sale, and (iii) equilibrium value of the Canadian dollar? 10 (CO1) (PO1)

5. a) Assume that the euro's spot rate has moved in cycles over time. How might you try to use future contracts on euros to capitalize on this tendency? How could you determine whether such a strategy would have been profitable in previous periods? 10 (CO2) (PO2)

b) City Bank expects that the Mexican peso will depreciate against the U.S. dollar from its sport rate of $.43 to $.42 in 60 days. The following interbank lending and borrowing rate exist: 15 (CO3) (PO3)

Currency	Lending Rate	Borrowing Rate
U.S dollar	7.00%	7.2%
Mexican peso	22.0%	24.0%

City Bank considers borrowing 10 million Mexican pesos in the interbank market and investing the funds in U.S. dollars for 60 days. Estimate the profits (or losses) that could be earned from this strategy. Should City Bank pursue this strategy?

6. a) Why do you think a country suddenly decides to peg its currency to the dollar or some other currency? When a currency is unable to maintain the peg, what do you think are the typical forces that break the peg? 09 (CO2) (PO2)

b) A project in South Korea requires an initial investment of 2 billion South Korean won. The project is expected to generate net cash flows to the subsidiary of 3 billion and 4 billion won in 2 years of operation, respectively. The project has no salvage value. The current value of the won is 1,100 won per U.S. dollar, and the value of the won is expected to remain constant over the next 2 years. 16 (CO3) (PO3)

i. What is the NPV of this project if the required rate of return is 13%?

ii. Repeat the question, except assume that the value of the won is expected to be 1,200 won per U.S dollar after 2 years. Further, assume that the funds are blocked and that the parent company will only be to remit them back to the United States in 2 years. How does this affect the NPV of the project?