UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, May 2019

Course: International Finance and Risk Management   **Semester: IV**
Program: BBA, LLB (Hons.) Corporate Law/ FIF/ITIL/ B.Com, LLB (Hons.)TL   **Time: 03 hrs.**
Course Code: CLNL2026   **Max. Marks: 100**
Instructions: Attempt all the questions

SET- A

S. No.	SECTION A	Marks	CO
1.	Write a note on currency swap?	2	1
2.	What do you mean by letter of credit?	2	1
3.	What are the methods of translation exposure?	2	1
4.	Give an example for strategic alliance.	2	1
5.	Define creditorship securities.	2	1

SECTION - B

6.	Discuss about the capital structure decision and factors affecting the capital structure?	10	2
7.	Explain functions and applications of future markets?	10	2

SECTION-C

8.	9. Compare the following two mutually exclusive projects based on ARR. Cash flows and salvage values are in thousands of dollars. Use the straight line depreciation method. **Project A:** Year 0 1 2 3 Cash Outflow -205 Cash Inflow 81 105 100 Salvage Value 8 **Project B:** Year 0 1 2 3 Cash Outflow -185 Cash Inflow 74 100 74 Salvage Value 15	10	3&4

9.	Campbell Industries has a project worth $385,000 with the following projected cash flows:		
		Years	Cash inflows			
		1	$130,000		10	2
		2	$245,000			
		3	$180,000			
		4	$135,000			
	Using 8%, 12%, 14%, and 20% discount rates for this project and the NPV model should this project to be accepted or rejected?		

SECTION-D

| 10. | The crisis that started in Thailand in 1997 and spread to Malaysia, Indonesia, the Philippines and south Korea sparked a massive out flow of capital from Asia, resulting in economic, financial often social crisis in many parts of the region. The plunge of Asian currencies still inhibiting normal investment and trade activity in the region. What was one thought to be a regional crisis reached global proportions with the panic in Russia and brazil, while even hedge funds, banks and other global money managers – who were sometimes blamed for the crisis in the first place- suffered grate losses or even collapsed. These events are an ominous forewarning of the world economy of the future. This instability in global markets has led some to question the benefits of globalism, liberalization and free market principles that were propounded in many circles are the pillars of the post- cold war world. Discussion and proposals are being voiced from all over the world for reform of the IMF, the BIS and other institutions.

1. How can you build the necessary frame work to prevent the Asian crisis from recurring?
2. What should be the role of IMF and world bank in this regard? | 25 | 3 |
| 11. | Hindustan Level Ltd has foreign subsidiaries that facilitate its international business. Its consolidated earnings are partially attributed to the earnings generated by its foreign subsidiaries. The consolidated statements of HLL Ltd are subject to translation exposure, as all foreign earnings (in different currencies) are translated into US dollar earnings. Hence the consolidated earnings of the company are affected by the exchange rates prevailing when the conversation takes place. In the second and third quarter of 1988, translated earnings of countries, such as Thailand, Malaysia and Indonesia were | 25 | 4 |

reduced substantially, simply because of the depreciation of Asian currencies against the dollar.

1. Did this reduction in earnings cause a significant impact on the stock price of HLL Ltd?
2. Should HLL Ltd be concerned about its translation exposure? How will the exposure affect its stock price?

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

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SET- B

S. No.	SECTION A	Marks	CO
1.	Define bank Guarantee?	2	1
2.	Write short note on Translation exposure.	2	1
3.	What are the requirements of International monetary system?	2	1
4.	Mention any 4 underlying assets under derivative market.	2	1
5.	What is listing?	2	1

SECTION - B

6.	Write a note on exchange risk and types of exposure associated with it?	10	2
7.	What is derivative? Write a brief note about the contracts of derivatives?	10	2

SECTION-C

8.	Mr. Sivaram is considering to investing in a company. The project will require an initial investment of **$2,75,000** and is expected to generate the following cash flows thereafter:	10	2

Years	$
1	(40,000)
2	60,000
3	110,000
4	100,000
5	80,000
6	160,000

		7	200,000			

a) Calculate the payback period and comment on your answer.

b) Suggest Mr. Sivaram about pros and cons for adapting this method

9.	A project requires an initial investment of **$250,000** and is expected to generate the following net cash inflows: 	Years	1	2	3	4
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Cash inflows	100,000$	135,000$	90,000$	70,000$ | The cost of capital for investment is **12%.** Find the IRR for project	10	2

<div align="center">SECTION-D</div>

10.	Nike, the U.S.-based company with a globally recognized brand name, manufactures athletic shoes in such Asian developing countries as China, Indonesia, and Vietnam using subcontractors, and sells the products in the U.S. and foreign markets. The company has no production facilities in the United States. In each of those Asian countries where Nike has production facilities, the rates of unemployment and underemployment are quite high. The wage rate is very low in those countries by U.S. standards; the hourly wage rate in the manufacturing sector is less than one dollar in each of those countries, compared with about $18 in the United States. In addition, workers in those countries often operate in poor and unhealthy environments and their rights are not well protected. Understandably, Asian host countries are eager to attract foreign investments like Nike's to develop their economies and raise the living standards of their citizens. Recently, however, Nike came under worldwide criticism for its practice of hiring workers for such a low pay— "next to nothing" in the words of critics—and condoning poor working conditions in host countries. Evaluate and discuss various ethical as well as economic ramifications of Nike's decision to invest in those Asian countries.	25	3
11.	Vanilla Coke a product of Coca cola was targeted at the metro youth. It was different in taste, promotion, package, price etc. Vanilla Coke was promoted in retro style. The brand had Vivek Oberoi, the then Bollywood flame endorsing the brand in an unusual style. Vivek sported the retro look with typical combination of Elvis style + Shammi Kapoor style in an Old Lamby Scooter screaming. It failed because the campaign was not targeted at the right segment. This campaign had its fair share of critics also. The brand was priced at a premium over the ordinary coke. This may have discouraged the TG from checking out the brand. Assume that you are executive officer of Coke and give suggestion for relaunch of the product	25	4

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