**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FIFTH TRIMESTER (Batch 2019-21)**

**END TERM IMPROVEMENT EXAMINATION, FEB-2021**

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| --- | --- | --- | --- |
| Course Name | **International Finance** | Course Code | **FIN 504** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

**Detailed Reasoning and working are necessary without which marks will not be awarded.**

1. **A)** Explain how the appreciation of INR ( Indian rupee) against USD would affect the return of a US firm that borrowed INR and used the proceeds for a US project.

**B)** Euro is the common currency of all mainland European countries. Assume that the annual US interest rate is 8% and the Germany’s annual interest rate is 9%. The euro’s 1 year forward rate currently exhibits a discount of 2 %.

a) Does the interest rate parity exist ?

b) Can a U.S firm benefit from investing funds in Germany using covered interest rate arbitrage ?

c) Can a Germany subsidiary of a U. S. firm benefit by investing funds in the US through covered interest rate parity ?

Explain in detail giving your arguments. **(12 Marks)**

1. You are having USD 1,00,000. A bank is willing to buy USD for Rs. 0.90 euros per USD ($). It is willing to sell USD for 0.91 euros / USD ($).

a)You can sell Australian Dollar (AD) to the bank for $0.72

b) You can buy AD from bank for $0.74.

c) The bank is willing to buy AD from you for 0.68 euro per AD.

d) The bank is willing to sell AD to you for ) 0.70 euros per AD

With $1,00,000 estimate your profit /loss if you to attempt a triangular arbitrage by converting your USD to AD, then converting AD to Euros, and then converting euros to USD.  **(8 Marks)**

1. **A)** The Japanese 1year interest is 3% and the US interest rate is 9%. The spot rate of Yen = $ 0.0090 and its one year forward rate $0.0097. Answer
2. Does interest rate parity exist or quoted forward rate is too high or too low ?
3. Based on your answer in (a) is covered interest rate arbitrage is feasible for US investors for Japanese investors, or for both types of investors, or for neither type investors. Explain your answer clearly

**B)** Assume the following information is available for the US and Europe

|  |  |  |
| --- | --- | --- |
| Particulars | U. S. | Europe |
| Nominal Interest Rate | 4% | 6% |
| Expected Inflation | 2% | 5% |
| Spot Rate | - | $1.13 |
| One-year forward |  | $1.10 |

1. Does IRP hold ?
2. According PPP, what is the expected spot rate of euro in 1 year ?
3. According to IEF what is the expected spot rate of the euro in 1 year ?
4. Reconcile your answers.

Explain answers with detailed working. **(14 Marks)**

1. Mention five factors that impact free flow of capital from one country to other country. **(6 Marks)**