ANURAG GROUP OF INSTITUTIONS

School of Business Management (2014-16)

International Financial Management (A94003/F)

TEACHING PLAN (2016-17) **Name of the Faculty: Ch. Siva Priya**

S.NO	TOPIC	NO. OF CLASSES	REFERENCES
	Unit- I Introduction		Jeff Madura, International Corporate Management, Cengage, 2013 & Alan C. Shapiro, Multinational Financial Management, John Wiley, 2012
1.	Introduction: Overview, Importance	1	
2.	Nature & Scope of IFM	1	
3.	International Business Methods	2	
4.	Recent Changes & Challenges in IFM	1	
	Total	**5**	
	Unit – II International Flow of Funds		
5	Balance of Payments (BoP)	1	
6	Fundamentals of BoP, Accounting Components of BoP	2	
7	Factors Affecting International Trade	1	
8	Agencies that Facilitate International Flows	1	
9	Indian BoP Trends	1	
10	International Monetary System: Evolution, Gold Standard	1	
11	Bretton Wood's System	1	
12	The Flexible Exchange Rate Regime	1	
13	Evolution of Floating Rates	1	
14	The Current Exchange Rate Arrangements	1	
15	The Economic and Monetary Union (EMU)	1	
	Total	**12**	
	Unit – III Foreign Exchange Market		
16	Function & Structure of the Forex Markets	1	
17	Major Participants, Types of Transactions & Settlements Dates	2	
18	Foreign Exchange Quotations	1	
19	Process of Arbitrage	1	
20	Speculation in the Forward Market – Currency Futures & Options Markets	2	
21	Overview of the Other Markets – Euro Currency Market	1	
22	Euro Credit Market, Euro Bond Market	2	
22	International Stock Market	1	
	Total	**11**	
	Unit – IV		
23	a) Exchange Rates: Measuring Exchange Rate Movements	1	
24	Factors influencing Exchange Rates	1	
25	Government Influence on Exchange Rates – Exchange Rate Systems	1	
26	Managing Foreign Exchange Risk International Arbitrage and Interest Rate Parity	1	
27	b) Relationship between Inflation, Interest Rates and Exchange Rates	2	
28	Purchasing Power Parity	1	
29	International Fisher Effect –Fisher Effect	1	
	Total	**8**	
	Unit – V Asset Liability Management		
30	Foreign Direct Investment, International Capital Budgeting	2	
31	International Capital Structure and Cost of Capital	1	
32	International Portfolio Management, International Financing	1	
33	Equity, Bond Financing, Parallel Loans	2	
34	International Cash Management	1	
35	Accounts Receivable Management	1	
36	Payment Methods of International Trade	1	
37	International Trade, Trade Finance Methods	2	
38	Export – Import Bank of India,	1	
39	Recent Amendments in Exim Policy, Regulations and Guidelines	2	
	Total	**14**	
	Total No. of Classes	**56**	

COURSE FILE

Unit-I

Introduction

Short Answer Questions:

1. Explain the concept of MNC
2. Explain the Importance of IFM
3. What is International Business Methods
4. Briefly mention about imperfect theory
5. What is franchising give atleast 2 examples?
6. Explain what factor income is.
7. List out the agencies that facilitate international trade.

Long answers Questions:

1. Briefly discuss the theories of international business.
2. Explain the Recent Changes & Challenges in IFM
3. Explain the International Business Methods
4. Explain the Nature & Scope of IFM
5. Explain the evolution & Importance of IFM

Case Study

Blades Inc is a US based company that has been incorporated in the United States. Blades is a relatively small company with total assets of only $200 million. The company produces a single type of product – roller blades. Due to the booming roller blades market in the United States at the time of company's establishment, blades have been quite successful. For example in its first year of operation, it reported a net income of $3.5 million. Recently, however the demand for blades' "Speedos," the company's primary product in the United States, has been slowly tapering off and blades gas not been performing well. Last year it reported a return on assets of only 7%. In response to the company's annual report for its most recent year of operation, blades shareholders gave been pressurizing the company to improve its performance; its stock prices has fallen from a high of $20 per share 3 years ago to $12 last year. Blades produce high quality roller blades and employ a unique production process, but the price it charges are among the top 5% in the industry.

In the light of these circumstances. Ben Holt, the company's chief financial officer, is contemplating his alternatives for blades future. There are no other cost cutting measures that blades can implement in the US without affecting its quality. Also production of alternative products would require major modifications to the existing plant setup. Furthermore, and because of these limitations, expansion within the US at this time seems pointless.

- ***Ben Holt is considering the following***:-

If blades cannot penetrate the US market further or reduce cost here, why not import some parts from overseas and/or expand the company's sales to foreign countries? Similar strategies have proved successful for numerous companies that expanded into asia in recent years to increase their profit margins. The CFO's initial focus is on Thailand. Thailand has recently experienced weak economic conditions& blades could purchase components there at a low cost. Ben Holt is aware that many of Blades competitors have begun importing production components from Thailand.

Not only would blades be able to reduce cost by importing rubber and/or plastic from Thailand due to low cost of these inputs, but it might be able to augment weal US sales by exporting to Thailand, the economy is still in its infancy and just beginning to appreciate leisure products such as roller blades. While several of blades competitors import components from Thailand, few are exporting to the country. Long term decisions would be eventually have to be made; may be Blades Inc., could establish a subsidiary and gradually shift its focus away from the US if it's US sales DO NOT REBOUND. ESTABLISHING A SUBSIDIARY in Thailand would make sense for blades due to its superior production process. Ben Holt is reasonably sure that Thai firms could not duplicate the high quality production process employed by blades. Further, if the company's initial approach of exporting works well, establishing a subsidiary in Thailand would preserve blades sales before Thai competitors are able to penetrate the Thai market.

As a financial analyst for Blades Inc., you are assigned to analyze international opportunities and risk resulting from international business. Your initial assessment should focus on the barriers and opportunities that international trade may offer. Ben Holt has never been involved in any form and is unfamiliar with any constraints that may inhibit his plan to export to and import from a foreign country. Mr. Holt has presented you with a initial questions listed below for you to answer:

1. What are the advantages blades could gain from importing from and/or exporting to a foreign country such as Thailand?
2. What are some of the disadvantages blades could face as a result of foreign trade in the short run? In the long run?
3. Which theories of international business describe in this chapter apply to blades inc. in the short run, in the long run.
4. What long-range plans other than establishment of the subsidiary in Thailand are options for blades Inc and may be more suitable for the company.

<u>Unit-II</u>

International Monetary System

<u>Short Answer Questions:</u>

1. Gold Standard
2. Bretton Woods
3. 3. Floating   Rate
4. WTO
5. Current Exchange rateArrangements
6. The Flexible Exchange Rate Regime

<u>Long answers Questions:</u>

1. Define BOP. Explain the Fundamentals of BOP
2. Explain the Accounting Components of BOP
3. Explain the Factors affecting International Trade
4. Explain the agencies Facilitate International Flows
5. Explain Floating Exchange Rate and types
6. Discuss about Economic and Monetary Union
7. Discuss Current Exchange Rate Arrangement

<u>Case Study</u>

Exposure to international Flow of Funds:-

Ben Holt CFO of the blades Inc has decided to counteract the decreasing demand for “Speedos” roller blades by exporting this product to Thailand. Furthermore, due to the low cost of rubber and plastic in Southeast Asia Holt has decided to importsome of the components needed to manufacture “Speedos” from Thailand. Holt feels that importing plastic and rubber components from Thailand will provide blades with a cost advantage (the components imported are 20% cheaper than similar components in the United States). Currently approximately dollar 20 million or 10% of the Blades sales are contributed by its sales in Thailand. Only about 4% of Blades cost goods sold is attributable to rubber and plastic imported from Thailand.

Blades face little competition in Thailand from other US roller blades manufacturers. Those competitors that export roller blades to Thailand invoice their exports in US $’s. currently Blades follow the policy of invoicing in Thai Bhat(Thailand’s currency). Ben felt that this strategy would give blades a competitive advantage, since Thai importers can plan more easily when they do not have to worry about paying differing plans due to currency fluctuations. Furthermore, Blades primary customer in Thailand has committed itself to purchasing a certain amount of “Speedos” annually if blades will invoice in Bhatfor period of three years Blades purchases from Thailand exporter are currently invoiced in Thai bhat.

Ben is rather content with current arrangements and believes the lack of competitors in Thailand, the quality of blades products and its approach to pricing will ensure Blades position in the Thai roller blade market in the future. Holt also feels that Thai importers will prefer Blades over its competitors because the company invoices in Thaibhat.

You, the company's financial analyst, have doubts as to Blades "guaranteed" future success. Although you believe Blades strategy for its Thai sales and imports is sound, you are concerned about current expectations for the Thai economy. Current forecast indicate a high level of anticipated inflation, a decreasing level of national income and a continued depreciation of Thai Bhat. In your opinion all these future developments could affect Blades financially given the company's current arrangements with its suppliers and with the Thai importers. Both Thai consumers and firms might adjust their spending habits should certain developments occur.

In the past, you have difficulty convincing Ben Holt that problem could arise in Thailand. Consequently, you have developed a list of questions for yourself, which you plan to present the company's CFO after you have answered them.

Your questions are listed here:-

i. How could a higher level of inflation in Thailand affect Blades (assume US inflation remains constant).
ii. How could competition both from firms in Thailand and from US firms conducting business in Thailand affect Blades?
iii. How could a decreasing level of national income in Thailand affect Blades?
iv. How could a continued depreciation of the Thai Bhat affect Blades? How would it affect Blades relative to US exporters invoicing their roller bladesin US dollars?
v. If the company increases its business in Thailand and experiences serious financial problem, are there any international agencies that the company could approach for loans or other financial assistance?

Unit-III

Foreign Exchange Market

Short Answer Questions:

1. Foreign Exchange Market
2. Forex Markets
3. Arbitrage
4. Interest Rate Parity
5. Major Participants in the Foreign Exchange Market

Long answers Questions:

1. ExplainStructure of Foreign Exchange Market
2. Explain Quotas in Spot Market and Forward market and process of Arbitrage
3. Explain factors influencing Exchange rates
4. Convert the following rates into outright rates and indicate their spreads
   35.6300/25
   55.2200/35
   23.900/30
5. The price of equity shares of LG phones Ltd Company is 25. The risk free is 10% p.a. The Company does not pay any dividend but follows continuous compounding. An investor desires to enter into a 1 year forward contract. Calculate the forward price

Case Study

Assessment of Government's intervention on exchange rate

Blades, the US manufacture of roller blades generates most of its revenues and most of its expenses in the United States. However the company has recently began exporting roller blades toThailand. The company has an agreement with Entertainment products Inc. a THAILAND company for 3 years period. According to the terms of agreement, Entertainment Products Inc.will purchases 180,000 pairs of "Speedos" the company's primary product, annually at a fixed price of 4594 Thai bhat per pair. Due to quality and cost considerations, the company is also importing certain rubber and plastic components from a Thailand exporter; the cost of these components is approximately 2871Thai bhat per pair of Speedos. No contractual agreement exists between the company and the Thailand exporter. Consequently the cost of rubber and plastic components imported from Malaysia is subject not only to exchange rate considerations but to economic conditions (such as inflation) in Thailand as well.

Shortly after the company began exporting to and importing from Thailand, Asia experienced weak economic conditions. Consequently, foreign investors feared the bhat's potential weakness and withdrew their investments, resulting in an excess supply ofThai bhatfor sale. Because of the resulting downwardpressure on the bhats value, the thai government attempted to stabilize the bhats exchange rate. To stabilize the bhatsvalue, the thai government intervened in the foreign exchange market. Specifically, it swapped its bhat reserves for dollar reserves to purchase the bhat in the fore4ign exchange market. However, this agreement required Thailand to revrse this transaction by exchanging dollars for bhat at a future date. Unfortunately, the thai governments intervention was unsuccessful, as it was overwhelmed by market forces. Consequently, the thai government ceased its intervention efforts, and the value of thaibhat declined by more than 20% against the dollar over a five week period.

When the thai government stopped intervening in the foreign exchange market, the company's CFO, was concerned that the value of the thaibhat would continue to decline indefinitely. Since the company generates net inflows in thaibhat, this would seriously affects the company's profit margin. Furthermore, one of the reasons the company had expanded into Thailand was to appease the company's shareholders. At last year's annual shareholders meeting, they had demanded that senior management take action to improve the firm's low profit margins. Expanding into Thailand has been holts suggestion, and he is now afraid that his career might be at stake for these reasons, holt feels that the Asian crises and its impact on the company needs his serious attention. One of the factors Holt thinks he should consider is the issue of government intervention and how it could affect the company in particular. Specifically, he wonders whether the decision to enter into a fixed agreement with the entertainment products was a good idea under the circumstances. Another issue is how the future completion of the swap agreement initiated by the thai government will affect the company. To address these issues and to gain a little more understanding of the process of government intervention, holt has prepared the list of questions for you, the financial analyst, since he knows that you understand financial management.

i. Did the intervention effort by the thai government constitute direct or indirect intervention? Explain.
ii. Did the intervention by the thai government constitute sterlised or non sterlised intervention?
iii. If the thaibhat is virtually fixed with respect to the dollar, how could this affect US levels of inflation? Do think these affects on the US economy will be more pronounced for companies such as Blades that operate under trade arrangements involving commitments or for firms that do not? How are companies such as blades affected by a fixed exchange rate?
iv. What do you think will happen to the thai'sbhat value when the swap arrangement is completed? How will this affect Blades?

Unit-IV

A) Exchange Rates &
B) Relation Between Inflation, Interest Rate & Exchange Rates

Short Answer Questions:

1. What is an Exchange Rate
2. Define International Fisher Effect
3. What is Purchasing Power Parity
4. What is an Inflation

Long answers Questions:

1. Explain the theory of purchasing power parity. Based on this theory, what is the general forecast of the values of the currencies in countries with high inflation
2. Explain the international Fischereffect (IFE). What are the implications of the IFE for firms with excess cash that consistently invest in foreign treasury bills?
3. What is the rationale for the existence of the IFE
4. Assume Indian interest rates are generally above foreign interest rates. What does this suggest about the future strength or weakness of the rupee based on the IFE? Explain.
5. Explain managing risk in foreign markets.
6. Explain the measuring of Exchange Rate Movements
7. What are the Factors influencing Exchange Rates

Case Study

Hedging the sports exports company's economic exposure to exchange rate risk:-

Jim Logan, owner of the sports exports company, remains concerned about his exposure to exchange rate risk. Even if the Jim hedges his transactions from one month to another, he recognizes that a long trend of depreciation in the British pound could have a severe impact on his firm. He believes that he must continue to focus on the British market for selling his footballs. However he plans to consider various ways in which he can reduce his economic exposure. At the current time he obtains material from a local manufacturer and uses a machine to produce the footballs, which are then exported. He still uses his garage as a place of production and would like to continue using his garage to maintain low operating expenses.

i. How could Jim adjust his operations to reduce his economic exposure? What is a possible disadvantage of such an adjustment?
ii. Offer another solution to the hedging the economic exposure in the long run, as Jim's business grows. What are the disadvantages of this solution?

Unit-V
Asset Liability Management

Short Answer Questions:

1. What is Foreign Direct Investment?
2. Write few points on international capital budgeting
3. EXIM bank of India
4. Parallel loans
5. Methods of international financing
6. What is Account Receivable Management
7. Define Equity Bond Financing

Long answers Questions:

1. Explain some benefits to an MNC as a result of FDI. Elaborate on each type of benefits.
2. Explain indetail how the capital budgeting is done in MNC's
3. Explain the regulations and guidelines of EXIM bank of India
4. What are the different forms of international financing?
5. Explain the recent amendments in Exim Policy

Case Study

Multinational Capital Budgeting by the Sports Exports Company:-

Bill Wesley, owner of the sports export company, has been pleased with his success in the United Kingdom. He began his business by producing footballs and exporting them to the UK. While American style football is still not nearly as popular in the UK as it is in the US, his firm controls the market in the UK. Bill is considering an application of the same business in Mexico. He would produce the footballs in the United States and export them to a distributor of the sporting goods in Mexico, who would sell the footballs to retail stores. The distributor likely would want to pay for the product each month in Mexican pesos. Bill would need to hire one full time employee in the US to produce the footballs. He would also need to lease one more warehouse.

i. Describe the capital budgeting steps that would be necessary to determine whether this proposed project is feasible, as related to this specific situation.
ii. Explain why there is uncertainty surrounding the cash flows of this project.

MODEL QUESTION PAPER

SECTION-A

Write short notes on:

1. Importance of international business
2. International trade flow
3. Evaluation of floating rates
4. Bretton wood system
5. International fisher effects
6. FOREX market
7. Hedging
8. Translation exposure
9. Global bonds
10. Euro bonds

SECTION -B

Essay question types:-

11. a. what are the recent changes and challenges in IFM
    (OR)
    b. What is the difference between balance of trade and balance of payment?

12. a. Briefly explain the changes in the present IMS
    (OR)
    b. Describe about economic monetary union

13. a. Explain about Bretton wood period
    (OR)
    b.The price of equity shares of LG phones Ltd Company is 25. The risk free is 10% p.a. The Company does not pay any dividend but follows continuous compounding. An investor desires to enter into a 1 year forward contract. Calculate the forward price

14. a. Explain the theory of purchasing power parity. Based on this theory, what is the general forecast of the values of the currencies in countries with high inflation
    (OR)
    b.Explain the international Fischer effect (IFE). What are the implications of the IFE for firms with excess cash that consistently invest in foreign treasury bills?
15. a. Explain the international financial instruments?
    (OR)

b. Explain the regulations and guidelines of EXIM bank of India

Subject Code: R12E22MB01

ANURAG GROUP OF INSTITUTIONS

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School of Business Management

II-M.B.A-II-Semester Supplementary Examinations, Feb-2015
Subject: International Financial Management

Time: 3 Hours **Max.Marks:60**

Section – A (Short Answer type questions) (10 2 20 Marks)

Answer all questions

Write a short note on :

1. Balance of Payments
2. Name the agencies that facilitate international trade.
3. Bretton Woods System
4. EMU
5. Foreign exchange quotations
6. International Fisher Effect
7. Translation Exposure
8. Interest rate risk
9. Off-shore Bank
10. ADR & GDR

Section – B (Essay type questions) (5 x 8= 40marks)

Answer all questions, each question carry equal marks.

11. a) Explain the various methods of International Business.

OR

b) Discuss about the various factors which affect the International trade flows.

12. a) Define International Monetary System. Explain about flexible exchange rate regime.

OR

b) Briefly discuss about current exchange rate arrangements in global environment.

13. a) Define Foreign exchange market. Explain the various functions of Foreign exchange market.

OR

b) Define foreign exchange rate. Explain the factors influencing exchange rates.

14. a) Discuss the various types of Risks faced by the MNCs.

OR

b) What is Hedging? Explain in brief the various ways for Money market hedging.

15. a) Explain the role of International Banking offices in multinational trade.

OR

b) Explains the various international financial instruments.

Subject Code: R12E22MB02

ANURAG GROUP OF INSTITUTIONS

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School of Business Management

II-M.B.A-II-Semester End Examinations, Sep-2014

Subject: International Financial Management

Time: 3 Hours **Max.Marks:60**

Section – A (Short Answer type questions) **(**10 2 20 Marks**)**

Answer all questions

Write a short note on:

11. Importance of International Business
12. International trade flow
13. Evaluation of floating Rates
14. Bretton wood system
15. International Fisher Effects
16. FOREX market
17. Hedging
18. Translation Exposure
19. Global Bonds
20. Euro Bank

Section – B (Essay type questions) (5 x 8= 40marks)

Answer all questions, each question carry equal marks

11. **a**. What are the recent changes and challenges in IFM? (OR)

b. What is the difference between Balance of Trade and Balance of payment?

12. **a**. Briefly explain the changes in the present IMS ?

(OR)

b. Describe about Economic Monetary Union?

13. **a**. Role of major participants in a foreign exchange market? (OR)

b. How to measure Exchange rate movements and also show its influencing factors ?

14. **a**. What is meant by Derivatives? Explain the role of Derivatives. (OR)

b. Define Risk and show the Risk Assessment of MNCs?

15. **a**. Explain the international Financial Instruments?

(OR)

b. Critically Evaluate the International Banking system?