

# International Islamic University Chittagong

Department of Business Administration

MBA Final Examination

Spring 2022

International Financial Management (FIN-5504)

Full Marks: 40

Time: 3 Hours

Answer any FOUR of the following questions.

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1. a. Elaborate arbitrage with an example. 3
- b. Does IRP hold? If it holds what will be to arbitrage who is willing to invest in the foreign to earn a higher return? 3
- c. You are given the following information: 4
- |  |            |
|--|------------|
| Spot rate of Australian dollar         | = Tk.76.75 |
| 60-day forward rate of Canadian dollar | = Tk.75.65 |
| 60-day Bangladesh interest rate        | = 2.5%     |
| 60-day Australian interest rate        | = 4.5%     |
- Given only this information is covered interest arbitrage possible for Bangladeshi investors. If yes, what will be percentage gain or loss on Tk.1000,000 investment?
2. a. Explain the theory of purchasing power parity (PPP). Based on this theory, what is a general forecast of the values of currencies in countries with high inflation? 3
- b. Summarize your understanding of IRP, PPP and IFE. 3
- c. Draw a PPP line on a graph and discuss the points on the line above the line and below the line. 4
3. a. Explain the concept of triangular arbitrage and the scenario necessary for it to be plausible. 3
- b. Explain why PPP does not hold. 3
- c. Assume that the following spot exchange rates exist today: 4
- £1 = \$1.50  
C\$1 = \$.75  
£1 = C\$ 2.10
- Assume no transaction costs. Based on these exchange rates, can triangular arbitrage be used to earn a profit? If yes, what will be profit if you employed \$100,000. Discuss the steps.
4. a. Why firms forecast exchange rate? 5
- b. Discuss different types of techniques for forecasting exchange rate. 5
5. a. Compare and contrast transaction exposure and economic exposure. Why would an MNC consider examining only its "net" cash flows in each currency when assessing its transaction exposure? 5
- b. What factors affect a firm's degree of translation exposure? Explain how each factor influences translation exposure. Summarize the important provision of FASB-52. 5

6. a. The Finance manager of Apex co. is considering isolating the company from the transaction exposure. Apex has exported some RMG items to Germany and will receive € 200,000 in three months. It has obtained the following information:

- > Spot rate of Euro = Tk. 114.00
- > 90-day forward rate of Euro = Tk. 112.00
- > Interest rates are as follows

	Bangladesh	Europe
90-day deposit rate	2.00%	3.50%
90-day borrowing rate	3.00%	5.00%

- > A put option that expires in 90 days has an exercise price of Tk.111.50 and a premium of Tk.1.50 per euro.
- > The forecasted future spot rate in 90 days as follows:

Possible outcome	Probability
Tk.109.00	20%
111.0	30
113.0	30
114.0	20

Based on the information given above, determine whether a forward hedge, a money market hedge, or a currency options hedge would be most appropriate. Then, compare the most appropriate hedge to an unhedged strategy, and decide whether Apex should hedge its receivable position.

b. If hedging is more costly than no hedge, why would a firm even consider hedging?