International Islamic University Chittagong

Midterm Examination Autumn 2019

Program: MBA Course Code: FIN: 5504

Course title: International Financial Management

Time: 2 Hours | Marks: 30

Answer four(04) questions including question no. 06. For which 20 minutes are earmarked

Figure in the right margin indicates full marks.

1\. a) What is Transfer Price? How do MNcs use it to reduce corporate tax? 3

b) Product Q is manufactured in the United States where the tax rate is 24% and sold in Canada where the tax rate is 40% United States sends 10,000 Units of product Q at a transfer Price of $ 500 and it is sold in Canada at $1500. United States Wants to set up new transfer Price of $ 800. other information's are given below. 4.5

	USA	Canada
variable cost	$ 200	$ 150
Fixed costs	$ 1 million	$ 5 million

Import tariffs is assumed to be 2.5%.

Determine the net effect on overall company's income statement for the next year if new transfer pricing is put into effect

2\. a) What is the arbitrage process? What function does it serve in the context of foreign exchange market? 2

b) A forex dealer in Bangladesh gives a quote for the us dollar as Tk. 70.9450 – 70.9550. An importer needs $ 10,000 for paying his import bill. How many Takas he requires to be paid? How may Takas an exporter will receive from the export bill of $ 15000? 2

c) A Bangladeshi currency trader receives the follow in currency quotes: 3.5

Tk. 28.5000/ Singapore $ in Dhaka

Tk. 48.3610/ US $ in Dhaka

Singapore $ 1.7470/ US $

How will the trader use this set of information for making profit.

3\. a) Distinguish between Forward and SWAPS. As an Exporter, how do you hedge your Position with Forward. 2.5

b) Mention at least two advantages and one limitation of SWAP. 2

c) Compute the outright forward quotations from the following Swaps quotation of Canadian dollars in Europear term 3

Spot	30day swap	90 day swap	180 day swap
1.3910-15	10-9	12-10	15-12

4\. a) How future contract is improved over forward contract. 2

b) What is margin? Why it is required in future contract. 2

c) On August 6, you go long one IMM yen futures contract at an opening price of $0.00812 with an initial margin of $4.590. The settlement prices for August 6, 7, and 8 are $0.00791, $0.00845, and $0.00894, respectively. On August 9, you close out the contract at a price of $0.00857. Your round trip commission is $ 31.48 contract size is 12.5 m. 3.5

a. Calculate the daily cash flows on your account. Be sure to take into account your required margin and any margin calls (maintenance level $ 3000)
b. What your cash balance with your broker on the morning of August 10?

5. a) Ford buys a French franc put option (contract size is FF 250,000) at a premium of $ 0.01 per franc. If the exercise price is $ 0.02 and the spot price of the franc at date of expiration is $0.216, what is Ford's profit (loss) on the put option? 3

b) Prepare a pay off profile for buyer if a 55.50 cent DM call option considering the following information: 4.5
i) Contract size DM 1,25000
ii) The price of 55.50 US Cents per DM call option is 0.20 cents.
iii) At maturity of the option the realized spot exchange rate is expected to be DM 1.80/ $.