

International Islamic University Chittagong (IIUC)

Department of Economics & Banking

Semester Ending Examination: Autumn-2023 Program: B.S.S. (Honor's)

Course Title: International Finance and Banking ; Course Code: BNKG-3604

Time: 2.5 Hours

Full Marks: 50

Answer following questions. Questions 3 and 5 have alternatives. All parts of a question must be answered sequentially. Figures in the right margin indicate full marks.

Questions	Marks	CLOs& PLOs	Cognitive learning
01. (a) Distinguish between currency put option and currency call option	3	PLO-4	Understanding
(b) Exemplify different use of currency future and forward contracts	4	CLO-2	Creating
(c) David sold a put option on Australian dollars for \$.02 per unit. The strike price was \$.77, and the spot rate at the time the option was exercised was \$.73. Assume David immediately sold off the Australian dollars received when the option was exercised. Also assume that there are 50,000 units in an Australian dollar option. What was David's net profit on the put option?	3		Analyzing
02. (a) Explain different types of arbitrage strategies	2.5	PLO-4 CLO-3	Understanding
Or, "Purchasing power parity (PPP) theory attempts to quantify inflation – exchange rate relationship."- Explain this statement			
(b) Assume the following information: The Value of Canadian dollar in U.S. dollars is \$0.90 The Value of New Zealand dollar in U.S. dollars is \$0.30 The Value of Canadian dollar in New Zealand dollars NZ\$3.02 Given this information, is triangular arbitrage possible?	2.5		Analyzing
Or, Assume that the spot exchange rate of the British pound is \$1.73. How will this spot rate adjust according to PPP if the United Kingdom experiences an inflation rate of 7 percent while the United States experiences an inflation rate of 2 percent?			
(b) The 1-year interest rate in Australia is 10 percent. The 1-year interest rate in the United States is 5 percent. The spot rate of the Australian dollar (A\$) is \$.60 and the forward rate of the S\$ is \$.57. Assume zero transaction costs. i) Does interest rate parity exist? ii) Can a U.S. firm benefit from investing funds in Singapore using covered interest arbitrage?	05		Analyzing
Or, Assume the following information: Annual interest rate on three-month U.S. dollar commercial paper=3% Annual interest on three-month British-pound commercial paper=6% Spot dollar price of one Pound Sterling= 2.0000 Forward dollar price of one Pound Sterling for delivery in 90 days= 1.9815 As US based asset manager you are required to make a report justifying arbitrage investment opportunities based on above information. Your report should cover following requirements: i) What is the profit from interest arbitrage if you borrow US\$ 1000? Here assume X= last two digits of your class ID. (For example, if your class ID is EB 163001 then you could borrow US\$163001). ii) What is covered interest rate parity? iii) What are the risks involved in covered interest arbitrage?			

- 3 (a) "Transaction exposure is subset of economic exposure to exchange rate risk." – Evaluate this statement **03** PLO-4 CLO-2 Evaluating
- (b) "Profit possibility of call option buyer is unlimited but loss possibility is limited to option premium"- Evaluate this statement with graph. **3.5** Evaluating
- (c) Exemplify the Non-deliverable Forward Contract **3.5** Creating
- 4 a. Define following terms: **6** PLO-4 CLO-3 Understanding
- (i) Withholding Tax
- (ii) CAPM
- (iii) Blocked Fund
- (iv) Country Risk to be faced by MNC
- b. Analyze the country characteristics to be considered while deciding capital budgeting decision by MNC **4** Analyzing

Or,

Brower, Inc., just constructed a manufacturing plant in Ghana. The construction cost 9 billion Ghanaian cedi. Brower intends to leave the plant open for 3 years. During the 3 years of operation, cedi cash flows are expected to be 3 billion cedi, 3 billion cedi, and 2 billion cedi, respectively. Operating cash flows will begin 1 year from today and are remitted back to the parent at the end of each year. At the end of the third year, Brower expects to sell the plant for 5 billion cedi. Brower has a required rate of return of 17 percent. It currently takes 11.8 cedi to buy 1 U.S. dollar, and the cedi is expected to depreciate by 5 percent per year. Determine the NPV for this project. Should Brower build the plant?

- 5 Apex Ltd. is planning to establish a plant in Singapore. The CEO of Bliss ask you to evaluate the prospects of establishing the project in Singapore. The project related information are summarized below: **PLO-4 CLO-3** Analyzing

The estimated initial investment is 5 million Singapore dollars (S\$), which is equivalent to \$3.55 million. The current exchange rate S\$ is .55. Singapore Dollar is expected to be depreciated by 5% in following 2 years. The project is expected to end in 2 years. The estimated price, demand schedules and other information during each of the next five years are shown here:

Year	Price per unit of product	Demand in Singapore	Variable Costs (VC) per Racket
1	S\$50	600,000 units	S\$ 21
2	S\$50	800,000 units	S\$ 22

The expense of leasing extra office space is S\$ 1.10 million per year. Other annual overhead expenses are expected to be S\$ 1.12 million per year. The amount of depreciation is S\$ 0.55 million per year. The Singapore government will send a payment of S\$ 2.5 million to the parent to assume ownership of the subsidiary at the end of 2 years. The Singapore government will impose a 20-percent tax rate on income. The required rate of return for this project is 15%.

- Requirement 1:** Based on this information, suggest your CEO about prospects of this new plant.
- Requirement 2:** What would be your justification, if Singapore Government would impose a 10% withholding tax on cash flow to be remitted?