2021

TWO YEAR M. COM. SEMESTER 4 EXAMINATION

(New Syllabus under CBCS)

Instructions for Examinees

***The students are required to strictly adhere to the following instruction**s*:

1. Use A4 size paper for giving the examination.

2. Write the following on the top of the first page of answer sheet:

   i) Roll Number: (as per the Admit Card)

   ii) Registration Number: (as per the Admit Card)

   iii) Paper Code and Name of the Paper

   iv) Date of the examination

   v) Duration of examination (12 noon to 2pm)

3. Put page number on the top right of each page (including the first page).

4. Only one side of the paper should be used for examination.

5. Put your signature with date, at the bottom right of every page used.

6. Before sending your answer scripts, arrange the pages sequentially. Scan them in the order of page number and convert them into a single pdf. file.

7. Pdf. file name should be your **Full Roll Number <underscore> paper code**. While submitting the answer scripts, the subject of the mail will be exactly the same with the file name. [e.g., if the roll no of a student is C95/MCM/123456, for sixth paper (Paper Code DSE 406A) the file name will be: **123456_ DSE 406A**

8. Submit your answer scripts in pdf. format within the stipulated time through designated email id given to you.

9. Preserve your answer scripts in soft as well as hard-copy form of all the papers of your examination.

2021

COMMERCE

Paper – DSE-406A

International Finance

Full Marks -40

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Module -I

Answer ***any two*** questions. 2x10 = 20

1. (a) Name four major currencies of the world.

(b) From the following exchange rates quoted at different trading centers of the world, identify whether the quotes are direct or indirect. Give reasons in support of your answer.

Forex Market	Exchange Rate	Direct/ Indirect Quote	Reason
Jakarta	1 INR = 194.72- 195.23 IDR		
Tehran	1 INR = 567.25- 568.53 IRR		
Ankara	1 TRY = 3.87 – 3.99 THB		

4 + 6

2. (a) Compute the Spread of the currency based on the following exchange rate information:

1 USD = 74.56 – 75.77 INR

1 AUD = 34.22 – 34.94 INR

(b) Calculate the relevant forward rates based on the swap points provided.

Spot Rate: 1 € = 86.34 – 86.55 INR

Swap points – 1 month: 4/9

Swap points – 2 month: 12/16

Swap points – 3 month: 18/25

4 +6

3. (a) Compute Forward premium/ discount from the following information:

Spot Rate: 1 $ = 0.71 – 0.73 £

2-m forward rate: 1$ = 0.68 -0.69 £

3-m forward rate: 1$ = 0.63 – 0.635 £

Also identify which currency is at a premium.

(b) Find out whether currency arbitrage is feasible under the given circumstances:

Bank A: 1 USD = 0.713 – 0.736 GBP

Bank B: 1 USD = 0.722 – 0.745 GBP

Bank C: 1 USD = 0.715 – 0. 765 GBP

Bank D: 1 USD = 0.739 – 0.752 GBP

5 +5

4. (a) Write a Short note on Forward Hedging.

(b) Differentiate between In-the-money, Out- of- money and At- the- money currency options. 5 +5

Or,

(a) A company in UK sends 2000 pieces to its subsidiary in US, each piece worth GBP 5000. The payment in GBP would have to be made by the subsidiary at the end of 3 months. The finance manager of the subsidiary wishes to have protection against the uncertainty. The following rates are available in the market.

Spot Rate: GBPUSD 1.8306

3 months Call Option on GBP with a strike price of 1.8347 is available with a premium of 1.5324%.

3 months Put Option on GBP with a strike price of 1.8347 is available with a premium of 1.5324%.

The expected spot rate at expiry would be 1.8405.

Suggest with reasons, the best choice for the finance manager, including remaining un-hedged.

(b) What do you mean by perfect hedge?

(c) An Indian exporter has sold handicrafts items to an American business house. The exporter will be receiving USD 100000 in 90 days. Premium for 3 month USD put option with a strike price of ₹48 is ₹1. The exporter anticipates the spot rate after 90 days to be ₹46.50.

i) Should the exporter hedge its account receivable in the option market?

ii) If the exporter is anticipating the spot rate to be ₹47.50 or ₹48.50 after 90 days, how would it effect the exporter's decision?

5 + 1 + 4

Module-II

Answer ***any two*** questions. 2x10 = 20

5. (a) Explain any three practical difficulties faced in applying the 'Arm's Length Principles' in International Transfer Pricing decision.

(b) "The basic justification of tax neutrality is economic efficiency." – Justify the statement.

(c) Y Ltd. furnishes the following information:

Income in the State of Residence	80,000
Income from Abroad Sources	20,000
	1,00,000

Progressive Tax rate @ 35% for income of Rs. 85,000 and above
Progressive Tax rate @ 30% for income below Rs. 85,000
Compute the Relief from Double Taxation for Y Ltd. as per the (i) Exemption with Progression Method and (ii) Ordinary Credit Method if the Rate of Tax in the Source State is (i) 20% or (ii) 40%.

3+2+5

6. (a) “In general Eurocurrency spread are narrower than in domestic money markets.” What are the reasons for lower lending rates and higher deposit rates in Eurocurrency market?

(b) On January 01, 2021, the Canadian telecom authority expropriated a network service provider owned by XYZ Ltd., a Swedish operator of foreign telecom facility. In compensation, a perpetuity of $ 150 million will be paid annually at the end of each year. XYZ Ltd believes, however, that the Canadian Central Bank may block currency repatriations during the calendar year 2023, allowing only 50% of each year’s payment to be repatriated (and no repatriation of investment from other 50%). Assuming a cost of capital of 15% and a probability of currency blockage of 40%, what is the current value (on January 01, 2021) of Canada’s compensation?

5+5

7. (a) How the MNCs use International Transfer Pricing mechanism for ‘Moving Fund Internationally’ and ‘Avoiding Exchange Controls and Quotas’?

(b) What is ‘Profit Diversion’? How profit can be shifted from a high tax country (Domestic Traffic Area) to a tax haven by using transfer pricing? Explain with an example.

5+(2+3)

8. (a) Explain the concept of ‘Resale Price Method’ as a technique of International Transfer Pricing.

(b) Point out the implications of the Development Banks financing on the private sector or MNCs.

(c) ‘After the selection of a tax haven, the next relevant consideration is the form of organization outside the home country.’ – In this regard discuss the key factors that are taken into consideration for branch versus subsidiary decision.

4+3+3

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