

Mr. Peters learns from the banker that the current spot exchange rate is €/\$ is € 1.4537 thus the invoice amount should be €465,184. Mr. Peters also learns that the three-month forward rates for the pound and the euro versus the U.S. dollar are \$1.8990/£1.00 and \$1.3154/€1.00, respectively. The banker offers to set up a forward hedge for selling the euro receivable for pound sterling based on the €/\$ forward cross-exchange rate implicit in the forward rates against the dollar.

- (a) What would you do, if you were Mr. Peters?
- (b) Suggest alternative hedging possibilities for Shrewsbury Herbal Products, treating you as its treasury manager.

MBFM 4003

M.B.A. DEGREE EXAMINATION, JUNE 2014.

Fourth Semester

Finance

INTERNATIONAL TRADE AND FINANCE

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE out of Eight questions.

1. What do you mean by capital account of BOP. State its importance.
2. What do you mean by Bill of Lading?
3. Explain the factors that underlie the economic benefits of SWAPs.
4. State the major function of EXIM Bank in promoting India's Exports.
5. Explain Forfeiting.
6. Discuss the major provision of FEMA.

7. Critically examine the role of SEZ in promoting Indian exports.
8. Explain PPP theory and its implication.

PART B — (5 × 10 = 50 marks)

Answer any FIVE out of Eight questions.

9. Give a detail note on the barriers to international trade.
10. Elaborate on various types of pre and post shipment financing facilities available to Indian exporters.
11. Give a detail account on various schemes of ECGC in preventing the credit risk of Indian exporters.
12. Elaborate on the process and documentation for exporting goods from India.
13. Write a short note on :
 - (a) GP form
 - (b) PP form
 - (c) COD form

14. Give a detailed account on the various export incentives and marketing assistance available for Indian exporters.

15. What are the derivative instruments available for hedging against exchange rate variation? Explain with suitable examples.

16. Discuss the theories relating to determination of foreign exchange rate.

PART C — (1 × 20 = 20 marks)

Case Study – Compulsory

17. Shrewsbury Herbal Products, located in central England close to the Welsh border, is an old-line producer of herbal teas, seasonings, and medicines. Its products are marketed all over the United Kingdom and in many parts of continental Europe as well. Shrewsbury Herbal generally invoices in British pound sterling when it sells to foreign customers in order to guard against adverse exchange rate changes. Nevertheless, it has just received an order from a large wholesaler in central France for £320,000 of its products, conditional upon delivery being made in three months' time and the order invoiced in Euros. Shrewsbury's controller, Elton Peters, is concerned with whether the pound will appreciate versus the euro over the next three months, thus eliminating all or most of the profit when the euro receivable is paid. He thinks this is an unlikely possibility, but he decides to contact the firm's banker for suggestions about hedging the exchange rate exposure.