Roll No. [ ] Total No. of Pages : 03

Total No. of Questions : 17

M.Com. (2018 Batch) (Sem.–3)

INTERNATIONAL FINANCIAL MANAGEMENT

Subject Code : MCOPAF 312-18

M.Code : 76832

Time : 3 Hrs. Max. Marks : 60

INSTRUCTIONS TO CANDIDATES :

1. **SECTION-A contains EIGHT questions carrying TWO marks each and students has to attempt ALL questions.**
2. **SECTION-B consists of FOUR Subsections : Units-I, II, III & IV. Each Subsection contains TWO questions each carrying EIGHT marks each and student has to attempt any ONE question from each Subsection.**
3. **SECTION-C is COMPULSORY and consists of ONE Case Study carrying TWELVE marks.**

SECTION-A

Write briefly :

1. What is indirect quote?
2. What are swap contracts?
3. What is spot rate?
4. Define multinational firm.
5. What is nominal exchange rate?
6. What is cash management?
7. What is portfolio investment?
8. What is derivative?

SECTION-B

UNIT-I

9. Explain the goals of International financial management.
10. What are the fundamental factors affecting exchange rate?

https://www.ptustudy.com

UNIT-II

11. Explain different option trading strategies.

12. Explain different instruments of international finance.

UNIT-III

13. What is translation exposure? Explain its management.

14. Explain the management of economic exposure.

UNIT-IV

15. Explain different ways of foreign direct investment.

16. Write a detailed note on multinational working capital policy.

SECTION-C

17. Case study :

Stock market bubbles and subsequent crashes are a regular occurrence in history and many have similar characteristics. Charles Kindleberger 1991(cited in Komaroni 2006 p.30) described a bubble as being "...defined loosely as a sharp rise in price of an asset or a range of assets in a continuous process, with the initial rise generating expectations of further rises and attracting new buyers...The rise is usually followed by reverse expectations and a sharp decline in price often resulting in a financial crisis. "However it is usually with hindsight that such occurrences can be called a bubble and explained in full. In the period 1995- 2001, hundreds of internet companies entered the market. These companies, referred to as dot-com's, were financed by a combination of venture capital and the earnings from their Initial Public Offering (IPO). The dot-com phenomenon was more of a novelty and seen as the place to be. Investment managers who were reluctant to invest in this market were being questioned by their clients as to why they were not jumping on the dot-com bandwagon. Surely such a new technologically advanced phenomenon could only rise and start the dawn of the 'new economy'. This period is a classic example of optimistic investors overruling pessimistic investors, thus allowing the stock prices rise to ridiculous unsubstantiated prices. The market was limited in its ability to bring equilibrium to the stock prices in the form of short selling restrictions due to lockup agreements. This led to optimistic investors and momentum traders dominating the market for internet stocks, pushing out the pessimistic investors, who had a practical view of the overvalued prices. The price had nowhere to go but up. In 2000 many of the lockups expired which brought more new investors into the market. These investors brought with them realistic views of the internet market which ultimately pushed down the price levels and led somewhat to the collapse of the bubble. Short selling occurs when an investor believes that the share price is overvalued and borrows the security selling it at its high price in the hope of buying it back when the price drops thus making a profit. Someone who is long on a security profits when the prices rise. Although investors knew

https://www.ptustudy.com

the stocks were overvalued, an investor "*Those who cannot remember the past are condemned to repeat it.*" George Santayana going short on a dot-com company would have had to wait a long time for prices to come down enough to make a profit, so many stood on the side lines waiting for the dot-com bubble to implode. It was a matter of timing in order to make any profit. Alan Greenspan, then chairman of the Federal Reserve, described the behaviour of stock market investors as being taken over by an 'irrational exuberance'. It is clear that the market was acting irrationally when one looks to the accounting losses of some of the internet based companies e.g. eToys stock was valued at $8 billion in 1999 while its sales and net losses the previous year were $30 million and $28.6 million respectively. This is in stark contrast to the long established Toys 'R' Us who in the same period had stocks valued at $6million with revenue of $11.2 billion and profits of $346 million. This leads to the question of how the stock prices could have been so overvalued. Stephen H. Penman (2003 p.81) states that "*poor accounting feeds speculative beliefs*". Misleading accounting practices led many to believe that dot-com companies were operating legitimately. Many internet based companies stressed that earnings were not as important as creating a customer base. They valued their stock by the amount of 'clicks' that their page got insisting that this was more important than initial revenue. Such a new technology was not in a position to be argued with. The belief was that the increase in customer awareness of an internet based company would lead to future profits. But by 2000 many of the companies had run out of capital and had made no profits. The momentum surrounding dot-com companies had faded and further capital was nowhere to be found. The U.S. was also experiencing general political and economic optimism during this time. The Federal Reserve had reduced its interest rate in 1995 and did not raise it again until 1999, which allowed a greater flow of capital in the economy. The years 1998 to 2001 did see the start-up of many successful internet based companies but the market was tarnished by those companies that survived off borrowed money and were not interested in establishing a business. Amazon.com and Google are two of the best known examples of companies which took a realistic viewpoint with their business plan and advancing their technologies. When the crash came, the companies were in strong enough positions to weather the storm and continue.

Questions :

a. Explain in your own terms how the actions of investors affect the price of stocks.

b. In what way did the low interest rate set by the Federal Reserve affect the stock market during this period? How were companies which made almost no profit able to continue to operate?

c. Explain the above quote from George Santayana in relation to market crashes. How can your understanding of the quote be used to avoid future bubbles/crashes occurring?

NOTE : Disclosure of Identity by writing Mobile No. or Making of passing request on any page of Answer Sheet will lead to UMC against the Student.

https://www.ptustudy.com