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0711	2010008	MBDF3G2F
	QUESTION BOOKLET NUMBER	SUBJECT CODE

PROGRAM	:	**MBA**
SUBJECT	:	**Treasury and Forex Management**

DATE : July 31, 2011 | **TIMINGS: 10:00 Hrs to 13:00 Hrs**

TOTAL MARKS: 100 | **DURATION: 3 Hours**

To be filled by the Student			
ENROLLMENT NO.	[redacted]	OMR NO.	[redacted]
TEST CENTER	[redacted]	SEAT NO.	[redacted]

Instructions to Students

1. Fill in the required particulars in the Question Booklet and the Answer Booklet. In the absence of this data, the Answer Booklet will not be evaluated.
2. Use the OMR Answer Sheet to mark answers for section A. Use the Answer Booklet to write responses for sections B and C.
3. See the back cover page for instructions on marking answers in the OMR Answer Sheet.
4. Section A should be attempted first. Time allotted to answer section A is 30 minutes. Return the OMR Answer Sheet 30 minutes after commencement of the examination. Return the Answer Booklet at the end of the examination.
5. Students can retain this Question Booklet after the examination.

Answering Materials to be distributed along with this question booklet:	
★OMR ANSWER SHEET	**● ANSWER BOOKLET**

Formulae and Tables [FAT] Book to be issued for reference and collected back

Section A : Basic Concepts (30 Marks)

- **This section consists of questions with serial number 1 - 30.**
- **Answer all questions.**
- **Each question carries one mark.**
- **Maximum time for answering Section A is 30 Minutes.**

1. Which of the following is **not** a function of Treasurer?

   (a) Recording all the transactions in the general ledger
   (b) Risk management
   (c) Selection of suitable banking services
   (d) Investment decisions
   (e) Financing decisions

2. 10 years from now a person receives a pension of ₹ 10,000 per annum, the payment will continue for 16 years. If the interest rate is 10%, the worth of the pension now is

   (a) ₹ 33,104
   (b) ₹ 33,274
   (c) ₹ 33,174
   (d) ₹ 33,374
   (e) ₹ 33,574.

3. The fixed deposit scheme of JK Bank Ltd. has following interest rates:

Period of deposit	Interest rate
58 days to 180 days	10%
188 days to < 1 year	11%
1 year and above	13%

   An amount of ₹ 20,000 invested today will grow in 5 years to

   (a) ₹ 34,840
   (b) ₹ 35,840
   (c) ₹ 36,840
   (d) ₹ 37,840
   (e) ₹ 38,840

4. An investor is planning to invest in the equity stock of Tanti India Ltd. The current share price is ₹ 100 per share. The company has declared a dividend of ₹ 7 per share for the current year. The investor is of the opinion that the dividend per share will remain same for the next two years after which it will grow at the rate of 1% p.a. in the third and fourth years. From the fifth year onward, dividends are expected to grow at a perpetual rate of 3% p.a. If the required rate of return is 12% p.a. what will be intrinsic value of share?

   (a) ₹ 53.30
   (b) ₹ 62.31
   (c) ₹ 73.33
   (d) ₹ 83.34
   (e) ₹ 93.37.

5. A ₹ 5,000 bond with a 10% coupon rate matures in 8 years and currently sells at 97% of face value. If the required rate of return is 11%, which of the following statements is/are **true**?

   I. The current price of the bond will be equal to its present value of returns.
   II. The current price of the bond is higher than its present value of returns; therefore, investment in the bond is undesirable.
   III. The current price of the bond is lower than its present value of returns; therefore, investment in the bond is desirable.

   (a) Only (I) above
   (b) Only (II) above
   (c) Only (III) above
   (d) Both (I) and (II) above
   (e) Both (I) and (III) above.

6. Which of the following statements is/are **true** regarding Funds Flow Statement (FFS)?

   I. FFS is a statement which explains the various sources from which funds were raised and their uses.
   II. It helps in divisional performance appraisal.
   III. It can be used in evaluation of firm's financing.

   (a) Only (I) above
   (b) Only (II) above
   (c) Only (III) above
   (d) Both (I) and (III) above
   (e) All (I), (II) and (III) above.

7. Which of the following is **not** a spontaneous source of financing current assets?

   (a) Accrued expenses
   (b) Provisions
   (c) Overdraft
   (d) Trade credit
   (e) Sundry creditors.

8. Which of following statements is/are **false** about ABC analysis of inventory?

I. ABC system analyzes the items according to their importance in production system.
II. It ensures closer control on costly items.
III. It helps in achieving the main objective of inventory control at minimum cost.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) Both (I) and (III) above.

9. Which of the following statements is/are **false** about the Certificate of Deposits (CDs)?

I. Certificate of Deposits (CDs) are marketable receipts in bearer or registered form.
II. Certificate of Deposits (CDs) are similar to fixed deposits.
III. They are liquid and risk less in terms of default of payment of interest and principal.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) Both (II) and (III) above.

10. Which of the following statements is/are **true** about Treasury bills?

I. These are short term government securities sold by central bank.
II. They have fixed rate of interest and therefore they are regarded as risk less securities.
III. They are highly secured and liquid.

(a) Only (I) above
(b) Only (II) above
(c) Both (I) and (II) above
(d) Both (I) and (III) above
(e) All (I), (II) and (III) above.

11. The method of raising additional finance from existing members by offering securities to them on pro rata basis is known as?

(a) Rights Issue
(b) Bought-out-deal
(c) Bonus issue
(d) Public Issue
(e) Private Placements.

12. The rate of return of CAT Ltd. is 12%, earnings per share is ₹ 15 and the cost of capital is 10%. The dividend payout ratio of the company is 20%. The share price of the company according to Gordon model is

(a) ₹ 550
(b) ₹ 650
(c) ₹ 750
(d) ₹ 850
(e) ₹ 950

$\frac{15(1-.20)}{.10-.80\times.12}$ $\frac{12}{0.004}$

13. Current account deficits in a Balance Of Payments (BOP) statement are offset by

(a) Capital account surpluses
(b) Merchandise trade deficits
(c) Merchandise trade surpluses
(d) Capital account deficits
(e) Official reserves.

14. A firm has combined leverage of 1.6 and financial leverage of 1.05. The firm's sales amounts to be ₹ 5,00,000 p.a. and its EBIT is equal to ₹ 2,32,500. What will be the percentage of variable cost to sales?

(a) 28.32%
(b) 29.32%
(c) 30.32%
(d) 31.32%
(e) 32.32%.

$1.6 = 1.05 \times \frac{500000 \times C}{232500}$

15. If the Net Present Value (NPV) of an investment is positive, the impact on Benefit Cost Ratio (BCR), Net Benefit Cost Ratio (NBCR), Internal Rate of Return (IRR) and cost of capital (K) would be

(a) IRR = K and NBCR > 1
(b) IRR = K and BCR > 1
(c) IRR > K and NBCR > 1
(d) IRR > K and BCR > 1
(e) NBCR > BCR and K > IRR.

16. Which of the following is/are the objective(s) of audit committee?

I. Evaluation of financial reports and policies.
II. Assessment of performance.
III. Assurance to shareholders about the targeted actions and social responsibility of the firm.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above.

17. The following are the exchange rates quoted in Singapore

S$/Euro	:	2.0118/21
S$/US$	:	1.7384/86

The synthetic rates of US$/Euro are

(a) 1.1572/73
(b) 1.1571/74
(c) 0.8640/41
(d) 0.8639/42
(e) 3.4977/79.

$\frac{1.7386}{2.0121}$ 1.738 $\frac{2.0121}{1.7384}$ $\frac{2.0118}{1.7386}$ 1.1571/1.1574

18. A limit on the number of units that can be imported or market share that can be held by foreign producers is known as

    (a) Quota
    (b) Embargo
    (c) Voluntary Export Restraint (VER)
    (d) Subsidy
    (e) Local Content Requirement.

19. Fixed or Pegged Exchange Rate System include(s)?

    I. Currency Board System.
    II. Target Zone Arrangement.
    III. Monetary Union.

    (a) Only (I) above
    (b) Only (II) above
    (c) Only (III) above
    (d) Both (I) and (III) above
    (e) All (I), (II) and (III) above.

20. Which of the following is **not** a Eurobond instrument?

    (a) Commercial Paper
    (b) Depository Receipts
    (c) Medium-Term Notes
    (d) Note-Issuance Facilities (NIF's)
    (e) Standby Note-Issuance Facilities.

21. According to Posner, the improvement in technology is a continuous process and resulting inventions in existing products give rise to trade between two countries having similar factor endowments and consumer tastes. Which theory of international trade is this?

    (a) Theory of comparative advantage
    (b) Theory of absolute advantage
    (c) Imitation gap theory
    (d) International product life cycle theory
    (e) J-Curve theory.

22. A Quote given by the bank to its retail customers is a

    (a) Direct quote
    (b) Indirect quote
    (c) Merchant quote
    (d) European quote
    (e) American quote.

23. An importer in U.K who expects to pay the import bill in dollar after 3 months will hedge his exposure by

    (a) Buying dollar in the spot market
    (b) Booking a 3 month forward contract for selling dollar
    (c) Booking a 3 month forward contract for buying dollar
    (d) Booking a 3 month forward contract for buying pound
    (e) Booking a 3 month forward contract for selling the pound.

24. Which of the following statements is **false** if a country is following a Managed Float System?

(a) The volatility of exchange rates associated with a clean float increases the economic uncertainty faced by players in the international markets
(b) The central bank may occasionally enter the market in order to smoothen the transition from one rate to another
(c) A sudden depreciation of domestic currency may lead decrease in inflation rate in the economy
(d) The central bank's aim in intervention of the market is to prevent speculative attacks on the currency
(e) A sudden appreciation of the domestic currency would make the domestic goods more expensive in international markets.

25. Which of the following risk(s) is/are **not** covered by Export Credit Guarantee Corporation (ECGC)?

I. Fluctuations in exchange rates.
II. Loss or damage to goods covered under general insurance.
III. Insolvency of the buyer.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) Both (II) and (III) above.

26. Interest rate parity implies that

(a) Interest rate should change by an equal amount but in the opposite direction, to the difference in inflation rates between two countries
(b) In the long run real interest rate between two countries will be equal
(c) Nominal interest rates in each country are equal to the required real rates plus compensation for expected inflation
(d) The interest rates between two countries start in equilibrium any change in the differential rate of inflation between the two countries tend to offset over the long-term by an equal but opposite change in the spot exchange rate
(e) The difference in interest rates in different currencies for securities of similar risk and maturity should be consistent with the forward rate discount or premium for the foreign currency

27. Which of the following statements is/are **false** about the assumptions of standard Economic Order Quantity (EOQ)?

I. The demand for a given period is known.
II. There may be delays in placing and receiving order.
III. There are two costs associated with inventories i.e. carrying cost and ordering cost and the cost per order is constant.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) Both (II) and (III) above.

 (Please Turn Page)

28. Which of the following statements is/are **true** about Yield To Maturity (YTM)?

I. It is present value of future cash flow streams i.e. intrinsic value of an asset.
II. It is the total amount of cash received by an investor at maturity date of security.
III. It is the discount rate which equals the present value of promised cash flows to the current market price/purchase price.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above.

29. Reliance industries limited issues 14% debentures, face value ₹ 100. The net amount realized per debenture is ₹ 94. The debentures are redeemable at par after 10 years. If the company pays 50% tax on its income, the cost of debt would be

(a) 5.8%
(b) 6.8%
(c) 7.8%
(d) 8.8%
(e) 9.0%.

$\frac{14 \times .50 + \frac{100-94}{10}}{\frac{100+94}{2}}$ 7.60

30. Which of the following statements is/are **true** about European Options?

I. In these options writer's liability is limited.
II. These options can be exercised at a specified time only.
III. These options can be exercised at any time.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) Both (I) and (III) above.

END OF SECTION A

Sections B&C

(Please Turn Page)

Section B : Problems/Caselet (50 Marks)

- **This section consists of questions with serial number 1 – 5.**
- **Answer all questions.**
- **Marks are indicated against each question.**
- **Detailed workings/explanations should form part of your answer.**
- **Do not spend more than 110 - 120 minutes on Section B.**

1. a. A firm has Degree of Operating Leverage (DOL) equal to 1.3 and the sales revenue of ₹ 50,00,000. The variable cost to sales ratio is 40%.

   You are **required** to calculate the combined leverage of the firm, if the company is paying an interest of ₹ 60,000. **(6 marks)**

   b. Hindustan Lever Ltd. is considering a new product line to supplement its product range. It is anticipated that the new product line will involve cash investments of ₹ 7,00,000 at time 0 and ₹ 10,00,000 in year 1. After-tax cash inflows of ₹ 2,50,000 are expected in year 2, ₹ 3,00,000 in year 3, ₹ 3,50,000 in year 4 and ₹ 4,00,000 thereafter through year 10. While the product line might be viable after year 10, company prefers to be conservative and end all calculations at that time.

   You are **required** to determine Net Present Value (NPV) of the project, at required rate of return 15% and 10% and comment at which rate the project will accepted or rejected? **(6 marks)**

2. Victor Technologies Ltd. (VTL) has the following capital structure:

Particulars	Book value (₹ in lakh)
Equity share capital (10 lakh shares at par value)	1,000
Retained earnings	1,400
11% non-convertible debentures (15 lakh debentures at face value)	1,500
12% term loan	1,100
	5,000

The past dividend and price data of the equity share of VTL are given below:

Year	2007-08	2008-09	2009-10	2010-11
Dividend per share (₹) paid at the **end** of the year	21	22	24	25
Price per share (₹) at the **beginning** of the year	245	256	258	266

The interest on the debentures is payable annually. The debentures will be redeemed at the end of the fifth year and sixth year from now, in two equal installments. The net amount realized per debenture is ₹ 97. The difference between the redemption value and the net amount realized will be written off evenly over the period of six years from now and it is assumed that the amount so written off will be allowed as a tax-deductible expense. The tax rate applicable is 36%.

The price of the equity share of VTL at the end of the year 2010-11 was ₹ 280. It is assumed that the actual yields earned by the equity shareholders in the past have been in conformity with their expectations and the equity shareholders will continue to have similar expectations in the future.

You are **required** to compute the weighted average cost of capital for the company. **(12marks)**

3. Mr. Kevin Robert, the treasurer of an MNC in US observed that the company has a surplus of US$ one million for a period of 3 months. The treasurer has sought the permission of the CEO to invest in a local bank at a rate of 2.0% p.a. The CEO advised the treasurer to consider the likely return from investing the fund in Indian or Hong Kong market before finally deciding upon.

\$/HK\$	Spot	0.1285/88
	Three months	0.1290/95
₹ /\$	Spot	47.17/19
	Three months	47.63/65

Interest rates for 3 months in HK$ (p.a.) : 3.00% – 3.40%.

Interest rates for 3 months in Indian rupee (p.a.) : 6.00% – 7.00%.

Which of the following currencies would you recommend for investment?

i. U.S. dollars.

ii. Hong Kong dollars.

iii. Indian rupees. **(10marks)**

Caselet

Answer the following questions based on the given Caselet:

4. As per the caselet, External Commercial Borrowing (ECB) is being permitted by the government for providing an additional source of funds to Indian corporates and PSUs. ECB route has gained significant importance in the recent times due to the higher cost of borrowing in India compared with the international market. In this regard, discuss the other advantages of ECB. Also explain the disadvantages of ECB, if any. **(8 marks)**

5. According to the caselet, funds can be raised through different forms of ECBs which are available in the international financial markets. Discuss those forms of ECBs. **(8 marks)**

External Commercial Borrowings (ECBs) are being permitted by the Government for providing an additional source of funds to Indian corporates and PSUs for financing expansion of existing capacity and as well as for fresh investment, to augment the resources available domestically. ECBs are approved within an overall annual ceiling, consistent with prudent debt management, keeping in view the balance of payments position and level of foreign exchange reserves.

An Indian enterprise borrowing in foreign exchange has to comply with the ECB policy announced by the regulator, the RBI. ECBs encompass commercial bank loans, buyers' credit, suppliers' credit, securitized instruments such as floating rate notes and fixed rate bonds, credit from official export credit agencies, foreign currency convertible bonds and commercial borrowings from the private sector lending arms of multilateral financial institutions—for instance, the International

Finance Corporation and the Asian Development Bank. The ECB policy is monitored and updated by RBI on a regular basis, according to the macroeconomic conditions and foreign exchange liquidity situation.

The Indian economy has seen phenomenal growth over the last few years. The economic boom was initiated by the information technology sector and followed by the resurgence in the manufacturing and services industries. While the boom was accompanied by substantial foreign direct investment, Indian enterprises have also accessed significant amounts of foreign debt. The cost of borrowing being higher in India compared with the international market, Indian companies started using the ECB route frequently. As an anti-inflationary measure, RBI amended the ECB policy, making it more restrictive.

Over the course of last year, ECBs have suffered in view of the adverse economic conditions coupled with the regulatory hurdles. As a result of this, funds raised by India Inc. as ECBs declined by 64 per cent during 2008-09 on account of tight liquidity in the global markets triggered by collapse of Lehman Brothers. The biggest slump in India came in the ECBs of corporates as demand declined and investment plans took a back seat. ECBs came down to almost one-third in 2008-09 compared with inflows in 2007-08.

RBI has tried to address the problems faced in the realm of ECBs by announcing a number of steps to liberalize the policy. While RBI officials have tried to stimulate the ECB market to provide the required foreign exchange liquidity at affordable rates, lenders globally have been either increasing rates of interest or demanding prepayment of existing loans. Admittedly, the global financial situation continues to be uncertain even today. The US, UK, European countries and Japan have all officially recognized the recession and the increase in the downside risks to the global economy. Simultaneously, the policy initiatives in these economies have been geared towards managing the recession and defusing potentially deflationary trends.

The challenge for India lies in the regulator, RBI, ensuring that the ECB policy remains proactive and reflects the economic reality. Simultaneously, banks and financial institutions should endeavor to continue lending to reputed firms that have a good credit history.

END OF CASELET

END OF SECTION B

Section C : Applied Theory (20 Marks)

- **This section consists of questions with serial number 6 - 7.**
- **Answer all questions.**
- **Marks are indicated against each question.**
- **Do not spend more than 25 - 30 minutes on Section C.**

6. Funds flow analysis provides meaningful insights into the operations of a firm. Explain the significance of funds flow analysis in the light of the insights it provides. **(10 marks)**

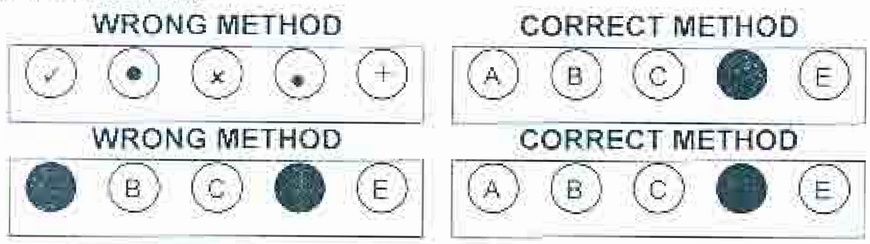
7. "If the forward premium deviates substantially from the interest rate differential between two currencies, covered interest arbitrage is possible", says the Interest Rate Parity theorem. Discuss why the Interest Rate Parity may not holds good in reality. **(10 marks)**

END OF SECTION C

END OF QUESTION PAPER

INSTRUCTIONS FOR MARKING ANSWERS ON THE OMR SHEET

1. **Section - I**
   Use **Ball Point Pen** only.
   Fill in all the particulars in the space provided.
2. **Section – II**
   Use **HB Pencil** only.
   Fill in one character/digit per cell and darken the corresponding circle below that cell.
   Details to be filled include enrolment no., question booklet no., test centre code & OMR answer sheet number.
   In case you want to change any of the information in this section, erase completely the pencil marking in the already darkened circle before darkening a new cell.
3. **Section - III**
   (i) **Marking the answer**
   - Mark your **answers** in this section using **HB Pencil** only.
   - For answering each question five circles marked with options A, B, C, D and E are provided corresponding to the five options given in the question.
   - Mark your answer by darkening completely the circle consisting of the option you think is the right answer.
   - Do not darken more than one circle for any answer.
   - Do not fill the circle by darkening partly or putting a tick mark, cross mark or any other kind of mark.



   (ii) **Changing the answer**
   - To change your response, erase completely the pencil marking in the circle before darkening a new circle.
     For Example assume that you have marked option (e) as the answer to a question as follows:

     1. (a) (b) (c) (d) (e)

     If you want to change this answer to option (c), erase completely the circle marked earlier i.e., (e) and darken the circle with option (c) as follows:

     1 (a) (b) (c) (d) (e)

4. **DO NOT** fold, tear or crumple the OMR answer sheet.
5. **DO NOT** use the OMR answer sheet for any rough work or scribbling.