

(Questions are of equal value. Figures in the right margin indicate full value. Use separate sheet for each section)

Section A

Answer any three of the following four questions in this section

1. a. What do you mean by agency problem in MNCs? Why is this created in MNCs? 02
- b. Narrate the risks associated with MNC cash flow. 03
- c. Alpha Inc. an US multinational has its operation in US, Canada, Thailand and Bangladesh. In 2025, the Company has earned a cash flow of \$20.39 million from local business. Canadian and Bangladeshi subsidiaries are expected to produce cash flow of CAD 81.25 crore and Tk 3.9 billion each at that period whereas Thai subsidiary exhibit a cash-flow of (11.20 lac) Baht The exchange rate between currencies are given as follows: 05

1 US \$ = 1.37 CAD	1 BDT = 0.012 CAD	1 Baht = 3.78 Taka
--------------------	-------------------	--------------------

WACC of Alpha is 9.0%. Determine value of Alpha Inc in US\$ in million for the period.

2. a. Assume that a Bangladeshi MNC commonly purchases supplies from Japan and USA and therefore, desires to forecast the direction of Japanese yen and US dollar. The company's financial analyst has developed the following one-year projections for economic conditions: 04

Factors	Bangladesh	USA	Japan
Change in interest rates	- 1%	- 2%	- 4%
Change in rate of inflation	+ 2%	- 3%	- 6%

Assume that Bangladesh and USA conduct a large volume of international trade but engage in minimal capital flow transactions. Also assume that Bangladesh and Japan conduct very little international trade but frequently engage in capital flow transactions. What should the company expect regarding the future value of US dollar and Japanese yen? Explain.

- b. Differentiate between licensing and franchising as entry mode to international business. 02
- c. What are the differences between forward market and future market? 04
3. a. What is currency spread? Explain the factors those affect spread in international currency market. 04
- b. What do you mean by crawling peg system? Why did Bangladesh central bank officially introduce this system in 2024? 06
4. a. Define Carry Trade. Suppose, Oxford Capital Ltd. is a U.S. firm that executes a carry trade. It borrows Euros because interest rates are low in the Eurozone and invests in British pounds because interest rates are higher in the United Kingdom. Oxford uses \$80,000 of its own funds and borrows an additional 520,000 Euros. It will pay 0.4% interest on the Euros borrowed for the next month and will earn 1.10% interest on funds invested in British pounds. 05
Assume: Euro spot rate = \$1.10; British pound spot rate = \$1.50 ; Expected future spot rates remain unchanged
Required: Compute Oxford Capital Ltd.'s expected profit from its carry trade.
- b. Panama Bank expects the following movement of exchange rate between CAD and Mexican Peso. 05

1 CAD	
Today	After 120 days
11.50	10.95

Following inter-bank annualize borrowing and lending rate exist:

	Lending rate	Borrowing rate
CAD	8.15%	9.15%
Peso	12%	13.5%

Panama Bank has options to borrow either 50.75 million CAD or Equivalent Peso amount from interbank market which seems suitable and can invest the funds for 120 days in either currency which one is appropriate.

Which strategy should Panama Bank follow? Estimate profit or loss from the strategy.

Section B

Answer any three of the following four questions in this section

1. a. Distinguish between forward and futures market. 04
 b. What do you mean by conditional currency options? Explain with a suitable illustration. 03
 c. Mike sold a call option on Canadian dollars for \$.021 per unit. The strike price was \$.80, and the spot rate at the time the option was exercised was \$.87. Assume Mike did not obtain Canadian dollars until the option was exercised. Also assume that there are 68,850 units in a Canadian dollar option. What was Mike's net profit/ loss on the call option? 03
2. a. What do you mean by Nonsterilized and Sterilized intervention? Explain with necessary diagrams. Also provide real life example from International Financial Market 04
 b. What is Fixed Exchange Rate? "A major advantage of floating exchange rate system is that country is more insulated from economic vulnerabilities of other countries" –Do you agree with the statement? Why or Why not? Illustrate with suitable example. 06
3. a. What do you mean by locational arbitrage? Cite example. 02
 b. You are given the following information regarding exchange rate of New Zealand Dollar (NZ\$) and US\$. 05

	Bid	Ask
NZ\$ Spot	\$0.50	\$0.52
NZ\$ 120 days Forward	\$0.54	\$ 0.56

The yearly deposit rate in US and New Zealand is 12.5% and 14% respectively. The investor has a sum of \$ 750,000 to invest.

Required: i. Is covered interest arbitrage feasible for US Investor?
 ii. Estimate profit/loss from the strategy.

- c. Explain the concept Interest Rate Parity. Assume that Annual Interest rate in India is 5.25% while interest rate in Bangladesh is 6.55%. According to IRP, what should be the forward rate premium/discount of the BDT will be with respect to Rupee? 03
4. Write Short notes on the followings: 10
 - a) International Fisher Effect
 - b) Purchasing power parity
 - c) Managed float system
 - d) Dollarization