**International Finance**

**June 2023 Examination**

**Q1. ABC Ltd- An Indian Multinational Company wants to expand its operations in European Nations and has decided to buy land in Poland for setting up a manufacturing unit. The setting of the manufacturing facility will open a billion-dollar European Market for the company. (10Marks)**

**ANS:**

**Introduction**

ABC Ltd, one of the fastest-growing Indian multinational organizations, has set its sights on increasing its operations inside the European market. To attain this, the company has decided to put a production unit in Poland, which offers several benefits for the corporation’s increase plans. Poland has been gaining popularity amongst foreign buyers as a business-pleasant destination. With its strategic region in central Europe, Poland has a vast marketplace capacity and is a gateway to different European countries. Use as a stable political environment, a properly-developed infrastructure, and a skilled workforce makes it an

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**Q2. An Indian company imported goods from the US. The US manufacturer invoices the shipment in dollars (USD), and the amount is USD 5 million. The importer needs to pay the amount by 30 October 2023. The data regarding the futures contract as on 10 October 2023 is:**

**Interbank Spot Market**

**USD-INR 80.2725 - 80.2775**

**NSE futures:**

**USD INR 281023 80.3175- 80.3250**

**Questions:**

**Explain the process of hedging with currency futures for the above case, if the spot rate turns out to be INR 79.1250 on 28th October. What is the notional loss/profit of the Indian company when compared to the actual spot rate on October 28th? (Assume that the futures settlement rate is the same as the spot rate on the contract expiry date.)**

**Also, if the spot rate was 81.6250 on the expiry date, what would be the company’s notional profit for having decided to hedge the exposure? (10 Marks)**

**ANS:**

**Introduction**

Hedging is defending a company's financial role from adverse movements in the market by using financial gimmicks such as alternatives, futures, and forwards. When an enterprise hedges its publicity, it reduces the capacity effect of market fluctuations on its financial performance. Doing so can ensure greater predictable and robust income, which can increase investor self-assurance and drive the employer's share price up. Moreover, hedging can also assist companies in optimizing their cash flows. For example, an organization imports goods

**Q3. Indian Merchant importing goods from the UK worth 1 million GBP. But there is no direct quotation between GBP INR is available in the market. The spot rate in the market available is**

**GBP USD 1.2100**

**INR USD 0.012**

**a. Calculate the exchange rate between GBP INR using the above information (5 Marks)**

**ANS:**

**Introduction**

As an Indian merchant who imports goods from the United Kingdom (UK), it is important to calculate the exchange rate between GBP and INR. However, there is no direct quotation available in the market for this exchange rate.The merchant needs to consider this exchange rate and adjust their pricing accordingly to ensure profitability.A pegged exchange

**b. Assume that the spot quotation is between USD INR 80.7400- 80.8700. The six months forward is 216.25-218.25. Calculate the six months forward bid and ask rate for USD INR. (5 Marks)**

**ANS:**

**Introduction**

Forward chance refers to the capability of financial loss that may arise because of changes in the trade fee between currencies in a forward contract. When a company enters a forward agreement, they lock inside the exchange price for a destiny transaction. But, if the exchange