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551

**Fourth Semester M.B.A. Degree Examination, June/July 2014**  
**BUSINESS ADMINISTRATION**  
**Strategic Management**

Time : 3 Hours

Max. Marks : 70

**SECTION – A**  
**(Compulsory)**

**(1×15=15)**

**Note :** Answer to the question should **not** exceed **six** pages.

1. Describe the steps involved in developing a mission statement. Analyse with examples, the characteristics of a good mission statement.

**SECTION – B**

**(5×8=40)**

**Note :** Answer **any five, each** question carries **eight** marks. Answer to the question should **not** exceed **five** pages.

2. Explain broadly how environmental forces impact the crafting of a firm's strategy. Give examples.
3. Describe Porter's industry analysis in detail by applying the analysis to an industry with which you are familiar.
4. Discuss critically the importance of managing customer expectations for success of a firm with examples.
5. What are the various options available for a firm to pursue global strategy ? Elucidate the merits and demerits of each of them.
6. Explain the motives of the corporate restructuring.
7. What are the challenges in creating and sustaining new business models through business process initiatives ? How can a firm handle them ?
8. Explain competitive advantage theory as advocated by M.E. Porter with suitable examples.
9. Describe the role of CEO and Key managers in successful implementation of a business strategy.

**SECTION – C**  
**(Compulsory)**

**(1×15=15)**

**Note :** Answer to the question should **not** exceed **six** pages.

10. Critically analyse the Tata Group's launch of the Nano car, using SWOT analysis and the Portfolio approach.

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552

**IV Semester M.B.A. Degree Examination, June/July 2014**  
**(CBCS)**  
**BUSINESS ADMINISTRATION**  
**Operations Research**

Time : 3 Hours

Max. Marks : 70

**SECTION – A**  
**(Compulsory)**

**Note :** Answer **any two** of the following questions. **Each** question carries **10** marks.  
 Answer to the question should **not** exceed **five** pages. (2×10=20)

1. Elucidate the steps involved in Monte-Carlo simulation.
2. Describe the characteristics of operations research.
3. Discuss different decision criterion under uncertainty.

**SECTION – B**

**Note :** Answer **any three** of the following questions. **Each** question carries **12** marks.  
 Answer to the question should **not** exceed **six** pages. (3×12=36)

4. Find the saddle point for the following pay off matrix and state the optimum strategies for players.

		B				
		B <sub>1</sub>	B <sub>2</sub>	B <sub>3</sub>	B <sub>4</sub>	B <sub>5</sub>
A	A <sub>1</sub>	8	3	9	4	6
	A <sub>2</sub>	5	6	4	1	3
	A <sub>3</sub>	8	7	9	10	7
	A <sub>4</sub>	3	5	2	4	1

P.T.O.



5. A firm produces three types of products viz., A, B and C, which are processed on three different machines viz.,  $M_1$ ,  $M_2$  and  $M_3$ . The time required to process one unit of each product and the daily capacities available per day are given in the following table. The profit earned by selling one unit of type A, B and C is Rs. 10, Rs. 15 and Rs. 20 respectively. It is assumed that what all is produced is consumed in the market. Formulate this as LPP to maximize the profit.

Machines	Time per unit (minutes)			Machine capacity available (minutes)
	Product A	Product B	Product C	
$M_1$	5	3	2	400
$M_2$	4	-	3	500
$M_3$	5	2	1	300

6. A truck owner finds from his past experience that the maintenance costs per year of gear box whose purchase price is Rs. 8,000 are given below. Determine at which time it is profitable to replace the gear box.

Year	1	2	3	4	5	6	7	8
Maintenance Cost	1000	1300	1700	2200	2900	3800	4800	6000
Resale Price	4000	2000	1200	600	500	400	400	400

7. In a railway yard, goods trains arrive at a rate of 30 trains per day. Assuming that the inter arrival time follows an exponential distribution and service time (the time taken to hump a train) distribution is also exponential with an average 36 minutes.

**Compute :**

- The average number of trains in the system.
- The probability that the queue size exceeds 10.
- If the input of trains increases to an average 33 per day what will be the change in number of trains in the queue and the probability that the queue size exceeds 10 ?



8. A project has eleven activities whose duration is given in the following table :

Activity	0-1	1-2	1-3	2-4	2-5	3-4	3-6	4-7	5-7	6-7	7-8
Duration (Days)	2	8	10	6	3	3	7	5	2	8	3

- a) Draw the network.
- b) Determine total, free and independent float.
- c) Identify the critical activities and the critical path.

**SECTION – C**  
**(Compulsory)**

9. Find the initial feasible solution for the following transportation problem using VAM. (1×14=14)

	$W_1$	$W_2$	$W_3$	Supply
$P_1$	7	6	9	20
$P_2$	5	7	3	28
$P_3$	4	5	8	17
Demand	21	25	19	

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553

Fourth Semester M.B.A. Degree Examination, June/July 2014

BUSINESS ADMINISTRATION

Entrepreneurship Development and Small Business

Time : 3 Hours

Max. Marks : 70

SECTION – A

(1×15=15)

(Compulsory)

**Note :** Answer to the question should **not** exceed **six** pages.

1. What factors affect entrepreneurial growth ? Suggest measures to prevent sickness in SSI units.

SECTION – B

(5×8=40)

**Note :** Answer **any five** of the following. Answer to **each** question should **not** exceed **five** pages. **Each** question carries **8** marks.

2. Discuss about the feasibility report preparation and evaluation criteria for business plan.
3. Discuss the knowledge and skills required for an entrepreneur.
4. Scope of social responsibility by entrepreneur.
5. "Entrepreneurship is a process of creative destruction" – Analyses the statement.
6. Can managers be entrepreneurs ? Discuss.
7. Explain in detail the different methods of financing a new venture.
8. Discuss the problems of Small Scale Industries (SSI) in India. Suggest five remedial measures to overcome such problems.
9. Describe the four stage growth model of entrepreneurship.

P.T.O.



SECTION – C  
(Compulsory)

**Note :** Answer to the question should **not** exceed **6** pages.

10. Case study :

(1×15=15)

Founded in 1980, Travel Agents International Inc., began as a regional travel agent in the heart of Florida. The company targeted “Youthful” retired market of affluent people. Most of these retirees had relocated to Florida from northern states with ample retirement in-comes and the urge to travel. Looking for un-usual tours and recreation opportunities, they represented a huge market of anxious travel customers. Most also visited their previous homes or went north to see family members each year.

Travel agents international found a profitable niche among retired residents and within two years, the company had opened several offices in resort retirement communities. With the growth in franchising, TAI reorganized in 1982 and began offering franchise offices, each networked together for an integrated travel system. The company has retained its headquarters business in Seminole, Florida, but now has nearly 300 franchise locations.

Potential franchise owners are screened on application to ensure they have sufficient resources and a career interest in developing a personal service business in travel. The parent company earned \$67,000 net profit on approximately \$5 million in gross sales in 1988 and expected a similar financial profile into the 1990s. This sales figure represented income from franchisees, not travel sales or services. The company assures potential franchise owners that this income is adequate to provide franchise services, yet represents a low profit because money is reinvested in services for new franchise owners.

The company offers franchises at a flat fee of \$39,500 for a complete business package that includes training and help with initial licensing. Depending on the location of the business, the owner will have to spend between \$40,200 and \$87,600 to furnish an office and acquire reservations linkage through travel networks. The owner must arrange his or her own lease, or buy a location, and if the franchise is successful, the company offers “area” or master franchise options. Franchise royalty fees expressed in a fixed in a monthly charge of \$785 with advertising charge of \$335 per month.



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Prospective franchise owners are interviewed at their own expense, usually in Florida and the company reserves the right to decline an offer to anyone they feel unsuitable for the travel business. Applicants must also provide a full disclosure of their financial position and demonstrate the ability to meet franchise costs plus projected operating costs for the first year. Franchisees buy travel supplies and subscribe to catalogs from the parent company.

### Questions :

1. Make a list of question you would ask as a prospective franchise owner and briefly explain why these questions are important.
2. Assume that a typical travel franchise office can expect a net profit after taxes of 8 percent based on case information, what scenario can you describe for sales and profits if you bought into this franchise ? Would it be a good investment ? Why or why not ?

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Answer any five of the following. Answer to each question should not exceed 150 words. Each question carries 8 marks.

1. Discuss the scope of liability report preparation and evaluation criteria for business plan.
2. Discuss the knowledge and skills required for an entrepreneur.
3. Scope of social responsibility by entrepreneur.



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4H3

**Fourth Semester M.B.A. Degree Examination, June/July 2014  
(CBCS)**

**BUSINESS ADMINISTRATION  
Global Human Resource Management**

Time : 3 Hours

Max. Marks : 70

**SECTION – A  
(Compulsory)**

(1×15=15)

**Note :** Answer to the question should not exceed six pages.

1. Compare and contrast the convergence and Marxist theories as approaches to the study of comparative employment policy at global level.

**SECTION – B**

**Note :** Answer any five questions. Each question carries 8 marks and answer for each question should not exceed five pages. (5×8=40)

2. What approaches do multinational follow for handling international taxation ?
3. "Performance management is the most important responsibility of HR executives". Comment.
4. Explain the repatriation process.
5. What factors should be taken into account for an effective pre-departure training programme ?
6. Why do expats fail ? How to manage such failures ? Explain.
7. Bring out the role of IHR manager in ensuring ethical behavior.
8. What is the impact on IHRM of the 'change in the emphasis of the work force mix' ?
9. Explain the different approaches of international staffing.

P.T.O.





SECTION – C  
(Compulsory)

**Note :** Answer to the question should **not** exceed **six** pages.

**(1×15=15)**

10. In January 1990, the U.S. multinational, General Electric (GE), invested in Tungsram, a Hungarian lighting company, as part of its European market expansion strategy. By 1994, its equity had risen to 99.6%. The Hungarian operation had 13 existing factories employing 17600 workers. GE initially appointed a Hungarian-born U.S. expatriate as its top manager, though he was later replaced when Tungsram was brought under the direct control of GE Lighting Europe in 1993. Staff transfers played an important role in training and developing the Hungarian staff. Key executives were brought over from the United States for varying lengths of time (three to six months) to assist in knowledge and skills transfer. Management training also involved sending Tungsram staff to the United States, giving selected Hungarians exposure to GE's working environment and American life in general. In order to improve Tungsram's competitiveness, GE reduced staff levels by almost half and closed five plants, despite the unionized environment; it also invested heavily in training (quality programmes) to improve production workers' output. During this period, its European market share increased from 5% in 1989 to 15% in 1994.

**Questions :**

- 1) How did G.E. choose to execute its expansion strategies ?
- 2) Did GE's top manager anticipate the HR investment that the Tungsram acquisition would entail prior to its decision to purchase the Hungarian firm ?
- 3) Was it proper to GE to replace the Hungarian-born U.S. expatriate as its top manager of Tungsram when it came under direct control of GE lighting Europe ?
- 4) What steps did GE take to improve the competitiveness of Tungsram company ?

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4H4

**Fourth Semester M.B.A. Degree Examination, June/July 2014**  
**BUSINESS ADMINISTRATION**  
**Labour Laws**

Time : 3 Hours

Max. Marks : 70

**SECTION – A**  
**(Compulsory)**

**Note** : Answer to the question should **not** exceed **six** pages.

**(1×15=15)**

1. Critically examine the pros and cons of labour unrest in India.

**SECTION – B**

**Note** : Answer **any five** questions. **Each** question carries **eight** marks. Answer to the question should **not** exceed **five** pages.

**(5×8=40)**

2. Explain the functions of Trade Union.
3. Elaborate the technicalities in Workers Compensation Act 1923.
4. What are the provisions of Payment of Gratuity Act ? Discuss.
5. Discuss the deductions under Payment of Wage Act.
6. Describe the concept of Equal Remuneration for men and women.
7. Bring out the salient features of Minimum Wage Act.
8. Analyze the machinery of industrial dispute.
9. Enumerate the registration provisions of Trade Union Act of 1926.



SECTION – C  
(Compulsory)

**Note :** Answer to the question should **not** exceed **six** pages. **(1×15=15)**

10. Case analysis

- a) Workmen suffered an injury by an accident arising out of and in the course of employment and were permanently disabled. But accident had been caused by his willful disobedience at an order issued for the purpose of securing the safety of workmen. Is the employer liable to pay compensation in this case ? Discuss.
- b) A firm of Engineers contracted with the owners of cotton spinning factory to put a new driving wheel in to the steam engine belonging to the factory. While engaged in the work of fixing the new wheel, a workmen employed by the engineers met with an accident which caused his death. The dependents of the deceased workmen demand compensation from the owners of the factory. Is the employer liable to pay compensation in this case ? Discuss.

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4M3



Fourth Semester M.B.A. Degree Examination, June/July 2014

**BUSINESS ADMINISTRATION**

**International Marketing Management**

Time : 3 Hours

Max. Marks : 70

**SECTION – A**  
**(Compulsory)**

**(1×15=15)**

1. Discuss the impact of international trade on the economic development of a country. What motivates people to encourage or discourage international trade in a country like India ?

**SECTION – B**

**(5×8=40)**

**Note :** Answer **any five** of the following questions. **Each** question carries **8** marks and answer to the question should **not** exceed **five** pages.

2. Explain the specific facilities offered by the Govt. of India to encourage Indian firms for improving their export performance.
3. Explain various methods of payment used in foreign trade.
4. Explain the important international pricing objectives and factors which influence international pricing.
5. Briefly discuss the different types of non-tariff barriers.
6. Explain in detail the procedure for availing Pre-Shipment and Post-Shipment finance.
7. What are the important factors which influence the choice of marketing channels ?
8. Explain the different kinds of insurance policies and financial guarantees that are issued by the Export Credit Guarantee Corporation.
9. Enumerate the role of Export Houses in promoting international business.

**SECTION – C**  
**(Compulsory)**

**Note :** Answer to the question should **not** exceed **six** pages.

**(1×15=15)**

10. Suppose you have been appointed as Export manager of a company manufacturing and marketing plywood furniture. You have been asked by your Managing Director to locate a few foreign markets holding export prospects for plywood furniture made by your company. How and what type of information would you gather to identify the foreign markets for the company's product ?

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4 M 4

Fourth Semester M.B.A. Degree Examination, June/July 2014

**BUSINESS ADMINISTRATION**

**Services Marketing**

Time : 3 Hours

Max. Marks : 70

**Note** : Answer **all** Sections.

**SECTION – A**

**(1×15=15)**

**Note** : This is a **compulsory** question and carries **15** marks. Your answer should **not** exceed **six** pages.

1. "Increasing affluence of the middle class has triggered the growth of service sector in India." Do you agree ? Explain with appropriate examples.

**SECTION – B**

**(5×8=40)**

**Note** : Answer **any five** questions. **Each** question carries **8** marks. Your answer should **not** exceed **5** pages.

2. How can we distinguish services from goods ? What challenges these distinctions pose to the marketers?
3. Explain the elements of Service Marketing Mix with appropriate examples from tourism industry.
4. Discuss how market segmentation could be done for IT services.
5. What are mental processing service processes ? Explain with examples the marketing challenges posed by them.
6. Why is customer involvement in service production and delivery important ? Taking the example of a mall discuss the role of customer involvement and problems posed by them.

P.T.O.



7. Discuss the problems and challenges in the marketing of government services. Illustrate your answer.
8. Trace the changes in the financial services industry in India in the last two decades.
9. What are credence attributes? Discuss them in relation to healthcare service process.

## SECTION – C

(1×15=15)

**Note :** This is a **compulsory** question and carries **15** marks. Your answer should **not** exceed **six** pages.

10. Read the following case and answer the questions given at the end.

Punith Kumar was simply amazed. He had seen all forms of hostility and marketing warfare in the consumer goods industry, but to see similar warfare in the health industry fascinated him. Clearly, he told himself, doctors had found consumers in their patients. At least, that's what the concept note sent by Dr. Ajit Verma, country manager of Recovery Clinics and Hospitals, seemed to indicate. Verma and seven other senior doctors had left Karuna Nursing Home and Hospital to set up Recovery, which, as the note said, "... would be entirely devoted and dedicated to customer responsiveness."

Punith was a management consultant and was recommended to Recovery by the marketing director of Regrow Pharma, a large pharmaceuticals company in Mumbai. In fact, the suggestion to set up Recovery came from a non-resident patient, Dinesh Shah, who was undergoing treatment at Karuna's large speciality hospital in Central India. It was in the course of his interaction with the doctors that Shah sensed their unhappiness with the system. This prompted him to suggest the idea of Recovery. Verma had joined Karuna 10 years ago, assured of a challenging career in a hospital that was promising to be different. But over time, disillusionment set in as Karuna's image and response to the environment diluted its equity.

"Now that we have decided to do this, we do not want to repeat old mistakes," Verma had told Punith during their first meeting. "Having worked at Karuna, we can see its weaknesses and why it's losing uniqueness. Ten years ago, when it was established, we believed it was going to add value to our careers. We became a part of it because we were told that we are specialists who would bring exclusivity to the hospital. But soon, the focus shifted to fetching business and revenues. The management started hiring specialists and private practitioners,



offering them the cabins and consultancy arrangements at Karuna. The strategy was that these doctors would bring in their patients and use the infrastructure so that the hospital would start earning money.”

The Karuna management wanted to derive short-term benefits instead of gradually building up clientele. But the strategy, it appeared, did not pay off, as Verma said, “because there were many doctors and the business was not large enough in the first few months.” Consequently, competition for business became cutthroat between doctors”.

Despite modern amenities, state-of-art systems and numerous doctors, the image of the hospital was that of being too commercial - a fallout of the stigma of being a private hospital. It was common among doctors to slot every hospital under either category - a place where you get neglected to death or a place where you get researched to death. Karuna earned a new label - a place where you got cross-referred to death, for doctors at Karuna slowly took to enhancing each other’s earnings as they sent patients back and forth to doctors and specialists. At the end of his diagnoses, the patient ended up paying a huge amount of money for this treatment.

According to Verma, the high-cost, high-expectation syndrome hit the hospital. The initial promise of exclusivity and quality was lost. Karuna had the best of doctors, but aftercare was abysmal. With a view to keeping costs low, nurses, housekeeping staff and even the front office staff were hired cheap, training was virtually absent, and no attention was paid to end-user needs.

Punith Kumar could see Recovery trying to be all that Karuna was not and desiring not to be all that Karuna was. If Punith thought Verma was hiring him for routine systems design and a patient management manual, he was mistaken. For, Verma said, “We want to get Recovery’s positioning platform right and work on a sound marketing plan. What we want you to do is to help us build this brand, help ordinary doctors like us understand what brand building entails and how it is managed in a service industry.”

**Questions :**

- a) Suggest a positioning strategy for Recovery Clinics and Hospitals.
- b) Explain why it would be necessary for doctors as well as nursing staff to be marketing oriented.
- c) Identify and discuss the service quality dimensions which Recovery Clinics and Hospitals can use for measuring its service quality.

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4F3

**Fourth Semester M.B.A. Degree Examination, June/July 2014**  
**(Choice Based Credit System)**  
**BUSINESS ADMINISTRATION**  
**Financial Services**

Time : 3 Hours

Max. Marks : 70

**Instruction :** Answer *all* Sections.

**SECTION – A**  
**(Compulsory)**

**(2×10=20)**

**Note :** Answer **any two** questions. **Each** question carries **10** marks. Answer to the questions should **not** exceed **six** pages.

1. Explain the methods of credit control initiated by the RBI.
2. "Treasury bills are an important short term source of finance for the Government". Discuss.
3. Give a brief account of the SEBI guidelines and regulations relating to primary issue and right issues.

**SECTION – B**

**(3×12=36)**

**Note :** Answer **any three** questions. **Each** question carries **12** marks. Answer to the questions should **not** exceed **six** pages.

4. Define merchant banking. Explain the services of merchant bankers.
5. Discuss the implications of ADRs and GDRs.
6. State and explain the causes for financial innovation in the financial services in India.

P.T.O.





7. You as a Credit Manager of State bank of India have been approached by two companies for a loan of Rs. 10,00,000 for six months, with no collateral offered. Since the bank has reached its quota for loan of this type, only one of these requests can be granted. The relevant information supplied to you by the two companies are presented below :

Particulars	Company X	Company Y
<b>Assets</b>		
Cash	190	300
Debtors	274	424
Stock	1,100	1,350
Fixed Assets	1,080	1,100
	<b>2,644</b>	<b>3,174</b>
<b>Liabilities</b>		
Current liabilities	600	720
Long term loan	800	1,000
Equity capital	1,000	1,200
Retained Earnings	244	254
	<b>2644</b>	<b>3174</b>
<b>Other information :</b>		
Sales	2,800	1,900
% of GP on sales	20%	30%

- a) How do you rate the credit worthiness of the companies under review ?
- b) Which company do you recommend for the grant of loan without collateral ? Why ?
8. Readymade Garments Ltd. wants to lease a computer system for the purpose of color matching. The system will cost Rs. 30 lakh and if bought can be depreciated over its life of 5 years. The annual rentals, payable at the end of years for 5 years, will be Rs. 7 lakh. The applicable written down depreciation rate 25%. The lessor will maintain the computer system at its cost which works out to be Rs. 50,000 per year. At the end of useful life, the system can be sold at 50% of its depreciated value. The company's borrowing rate is 14% and tax rate is 35%. Should the system be leased ? Show your calculations.



SECTION – C  
(Compulsory)

(1×14=14)

**Note :** Answer to the questions should **not** exceed **six** pages. This question carries **fourteen** marks.

9. A finance company offers two finance schemes to its customers. The detail of the scheme is as follows :

Cost of equipment	10 lakh
Hire/Lease term	10 years
Hire/ Lease charges	Rs. 1.5 lakh
Residual value	Rs. 2 lakh
Depreciation	20 percent on WDV basis
Cost of capital	14%
Cost of debt	16%
Maintenance charge	Rs. 1 lakh in 5 <sup>th</sup> year

Which alternative – leasing or hire purchase – should customer use ? Why ?

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4F4

**Fourth Semester M.B.A. Degree Examination, June/July 2014**  
**BUSINESS ADMINISTRATION**  
**International Financial Management**

Time : 3 Hours

Max. Marks : 70

**Note : Answer all Sections.**

**SECTION – A**

**Note : Answer any two questions. Each question carries 10 marks. (2×10=20)**

1. Discuss the process involved in overseas expansion of businesses.
2. Discuss the salient features of financial instruments available in the international financial markets.
3. Discuss the techniques of working capital management that can be used by an MNC.

**SECTION – B**

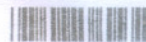
**Note : Answer any three questions. Each question carries 12 marks. (3×12=36)**

4. Suppose that the following quotes are received for spot, one-month, three months and six-months Swiss Francs (SFr) and pounds sterling :

Spot	One month	Three months	Six months
\$ : Rs. 60.8025-98	20-17	27-22	40-30
£ : Euro 1.3780-92	17-15	25-21	40-32

- i) Express all the above quotations on an outright basis and compute the bid-ask spreads.
- ii) Which of the above currencies are showing the premium/discount to the spot rates ?
- iii) You read in the financial press that the different currencies have different bid-ask spreads. Discuss the factors that influence these spreads.

P.T.O.



5. Assume the point of view of country A and that A's currency is dollars (\$), Do the following for the transactions given in (a) to (g) :
- Indicate the account to be debited and credited in each case
  - Enter these transactions in the appropriate "T accounts".
  - Prepare the balance of payments for country A. Assume that all the short term capital movements are of a compensating nature.
    - A imports goods from B for \$ 2000 and A's importers pay B's exporters for the \$ 2000 with a loan in B's currency which they get from A's bank.
    - A resident of country A, Mr. X goes on vacation to country B. He spends all the money he had with him, \$ 25000, for service received while on his vacation in country B.
    - A businessman of A, Mr. Y, decides to build a subsidiary plant in B. Therefore, he ships to B all necessary materials for this purpose, which cost \$ 200,000.
    - Mr. Y very soon finds out that he needs another \$ 50,000 for the completion of the plant. Thus, he issues bonds on the parent company for this amount and sells them to the citizens of B.
    - Mr. Y makes \$ 35,000 profit during the first year of operation which Mr. Y uses to enlarge his business in B. A's citizens are very impressed by the successful operation of Mr. Y's plant in B. Therefore, A's citizens buy from B's citizens half of the bonds issued by Mr. Y.
    - B is a producer of gold. During the period of time for which the BOP is completed, B produces \$ 15 million worth of gold. Half of this is consumed at home. However, 25% is sold to A's Central Bank and 10% is exported to A for industrial use. For the amount of gold exported to A, B accepts a deposit with the Central Bank of Country A.
    - A citizen of A, Mr. M, who migrated there from B a long time ago, finds out that he has inherited the property of his uncle. The property consists of a farm worth \$ 1,50,000 and a deposit of \$ 10,000 in B's bank.
6. Two countries, the United States and India, produce only one good, wheat. Suppose the price of Wheat in the United States is \$ 0.50 and in India it is Rs. 30.
- According to the law of one price, what should the \$ : Rs. spot exchange rate be ?
  - Suppose the price of wheat over the next year is expected to rise to \$ 0.75 in the United States and to Rs. 40.50 in India. What should the one-year \$ : Rs. forward rate be ?
  - If the U.S. government imposes a tariff of \$ 0.10 per Kg on wheat imported from India, what is the maximum possible change in the spot exchange rate that could occur ?



7. An importer has Euro 500,000 to make payment to a German exporter in six months. Suppose the option premium is Rs. 0.20 and exercise price is Rs. 65 per Euro. Suppose on the day the payment falls due the different possible values of Euro are : Rs. 50, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 72, 73, 75.
- a) Find the position of Indian importer who has bought European call option. Workout his profits/losses for all the above rates scenarios.
  - b) Would the profits in (a) above change if the importer had entered into a futures contract with the same exercise price. Show the calculations and profits/losses.
8. Discuss the documents involved and terms used in international trade.

SECTION – C

Note : Compulsory.

(1×14=14)

9. Altex Pharma INC, a US-based multinational company, is evaluating an overseas investment proposal. Altex's exports of pharmaceuticals products have increased to such an extent that it is considering a project to build a plant in India. The project will entail an initial outlay of Rs. 600 crores and is expected to generate the following cash flows over its five-year life.

Year	Cash Flow (in Crores)
1	Rs. 150
2	Rs. 180
3	Rs. 195
4	Rs. 250
5	Rs. 400

The current spot exchange rate is Rs. 60 per US dollar, the risk-free rate in India is 8 per cent and the risk-free rate in the US is 4 per cent and these are rates observed in the financial markets.

Altex Pharma's required dollar return on a project of this kind is 15 per cent. Should Altex Pharma undertake this project ? Compute the relevant evaluation criteria and show the calculations to substantiate your answer.