Code No: MB1348/R13

MBA IV Semester Regular/ Supplementary Examinations, June-2016

FINANCIAL RISK MANAGEMENT

Time: 3 Hours **Max. Marks: 60**

Answer Any **FIVE** *Questions*
All Questions Carry Equal Marks
Question No. 8 is Compulsory

1.	a	Define risk management. Explain in detail the process of risk management.	6
	b	Discuss in detail the objectives of risk management.	6
2.	a	Define risk retention and explain why large corporations may be able to use this technique more effectively than an individual or a small company.	6
	b	How is diversification a form of risk transfer? In what way does it results in risk reduction.	6
3.	a	Define a futures contract and a forward contract. Explain the differences between two types of contract. Describe how such contracts can be used to in risk management.	6
	b	What is the purpose of margin requirements in futures trading?	6
4.	a	Define currency and interest rate swaps. Explain how each can be used in risk management?	6
	b	Explain in detail the four factors that determine the price of an interest rate swap.	6
5.	a	Define an option contract, and explain the differences between puts and calls and between American and European options. How can options be applied to risk management?	6
	b	In general, what is the advantage of using options to hedge compared to futures contracts?	6
6.	a	Discuss various types of losses. Give an example of each category, using a large automobile manufacturer.	6
	b	Explain the concept of risk avoidance. When it is an appropriate risk management technique.	6
7.		For the most part, the price of oil is denominated in dollars. Assume that you are an Indian firm that expects to import 420,000 barrels of crude oil in six months. What risks do you face in this transaction? Explain how you could transact to hedge the currency portion of those risks.	12

8. **Case Study:** 12

Assume that an Indian firm, Inso Ltd, wants to acquire a US firm at a cost of \$2.00 crore. For this purpose, it raised the required capital of Rs. 90 crore (current exchange rate Rs.68/Dollar). The US acquisition is expected to yield a 15% return. At the same time, a US engineering firm, USENG Inc, is negotiating a joint venture to contribute US \$2.00 crore, which promises to yield a 15% return in India. USENG Inc, raises the dollars required at a cost of 8%. Assume that all liabilities need annual payments.

Questions:

a. Examine the risk face by the Inso Ltd and USENG Inc, if the rupee appreciates to 60, 62, 64, and 66 and rupee depreciates to 69, 71, 73 and 75.
b. Show how a swap arrangement between the two can help to eliminate the risk of exchange rate fluctuations.

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