



DELHI SCHOOL OF BUSINESS

By Vivekananda Institute of Professional Studies – TC

PGDM / PGDM (FINTECH) Program
TRIMESTER - VI (Batch: 2023-25)
END-TERM EXAMINATION, APRIL 2025

Course Name	International Financial Management	Course Code	
Duration	Three Hours	Max. Marks	60

Instructions:

1. Read all questions carefully before attempting.
2. Provide structured and concise answers, including relevant examples and diagrams where required.

Q1: Differentiate between offshoring and outsourcing. Discuss the advantages and challenges associated with each approach. Support your answer with relevant industry examples.

(6 Marks) CO1

Q2: On August 12, 2017, the Indian rupee fell 17% against the U.S. dollar. By how much has the dollar appreciated against the Indian rupee?

(6 Marks) CO1

Q3: Distinguish between fixed and flexible exchange rate systems. Discuss the key factors influencing the equilibrium exchange rate, with relevant examples and graphs.

OR

Q3: Suppose the interest rate on British pounds is 12% in London, and the interest rate on a comparable U.S. dollar investment in New York is 7%. The British pound spot rate is \$1.95, and the one-year forward rate is \$1.87. An arbitrageur plans to take advantage of the interest rate differential with an initial investment of \$1,000,000.

- a) Outline the steps the arbitrageur would take to profit from covered interest arbitrage.
- b) Calculate the arbitrage profit at the end of one year.

(8 Marks) CO2

Q4: Explain how a country can run an overall balance-of-payment deficit or surplus?

(8 Marks) CO1



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Q5: What are the factors affecting risk retention level of a business firm?

(4 Marks) CO3

Q6: On 15th March 2017, Mr. Pratap has taken short position in five futures contract at Rs. 170 per share of NTPC. Initial margin of the contract is 10% and maintenance margin is 3/4th of initial margin. The closing prices of the share are given below:

Dates (March 2017)	16	17	20	21	22	23	24
Price (Rs.)	172	169	174	176	172	175	183

Prepare a margin account for the investor, assuming that if a margin call is made at any time, the investor will deposit the required amount. The contract size of NPTC is 4,000.

(10 Marks) CO3

Q7: What is swap? Explain various types of swaps with relevant examples.

(8 Marks) CO4

Q8: Case: Enron versus Bombay Politicians

On August 3, 1995, the Maharashtra state government of India, dominated by the nationalist, right-wing Bharatiya Janata Party (BJP), abruptly canceled Enron's \$2.9 billion power project in Dabhol, located south of Bombay, the industrial heartland of India. This came as a huge blow to Rebecca P. Mark, the chairman and chief executive of Enron's international power unit, who spearheaded the Houston-based energy giant's international investment drive. Upon the news release, Enron's share price fell immediately by about 10 percent to \$33.50. Mark sprang to action to resuscitate the deal with the Maharashtra state, promising concessions. This effort, however, was met with scorn from BJP politicians. Enron's Dabhol debacle cast a serious doubt on the company's aggressive global expansion strategy, involving some \$10 billion in projects in power plants and pipelines spanning across Asia, South America, and the Middle East.

Enron became involved in the project in 1992 when the new reformist government of the Congress Party (1), led by Prime Minister Narasimha Rao, was keen on attracting foreign investment in infrastructure. After meeting with the Indian government officials visiting Houston in May, Enron dispatched executives to India to hammer out a "memorandum of understanding" in just 10 days to build a massive 2,015-megawatt Dabhol power complex. New Delhi placed the project on a fast track and awarded it to Enron without competitive bidding. Subsequently, the Maharashtra State Electricity Board (MSEB) agreed to buy 90 percent of the power Dabhol



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produces. Two other U.S. companies, General Electric (GE) and Bechtel Group, agreed to join Enron as partners for the Dabhol project.

In the process of structuring the deal, Enron made a profound political miscalculation: It did not seriously take into consideration a rising backlash against foreign investments by an opposition coalition led by the BJP. During the state election campaign in early 1995 the BJP called for a reevaluation of the Enron project. Jay Dubashi, the BJP's economic advisor, said that the BJP would review all foreign investments already in India, and "If it turns out that we have to ask them to go, then we'll ask them to go." Instead of waiting for the election results, Enron rushed to close the deal and began construction, apparently believing that a new government would find it difficult to unwind the deal when construction was already under way. Enron was not very concerned with local political sentiments. Enron fought to keep the contract details confidential, but a successful law-suit by a Bombay consumer group forced the company to reveal the details: Enron would receive 7.4 cents per kilowatt-hour from MSEB and Enron's rate of return would be 23 percent, far higher than 16 percent over the capital cost that the Indian government guaranteed to others. Critics cited the disclosure as proof that Enron had exaggerated project costs to begin with and that the deal might have involved corruption.

The BJP won the 1995 election in Maharashtra state and fulfilled its promise. Manohar Joshi, the newly elected chief minister of Maharashtra, who campaigned on a pledge to "drive Enron into the sea," promptly canceled the project, citing inflated project costs and too-high electricity rates. This pledge played well with Indian voters, many of whom had a visceral distrust of foreign companies since the British colonial era. (It helps to recall that India was first colonized by a foreign company, the British East India Company.) By the time the project was canceled, Enron already had invested some \$300 million. Officials of the Congress Party who championed the Dabhol project in the first place did not come to the rescue of the project. The BJP criticized the Congress Party, rightly or wrongly, for being too corrupt to reform the economy and too cozy with business interests. In an effort to pressure Maharashtra to reverse its decision, Enron "pushed like hell" the U.S. Energy Department to make a statement in June 1995 to the effect that canceling the Enron deal could adversely affect other power projects. The statement only compounded the situation. The BJP politicians immediately criticized the statement as an attempt by Washington to bully India.

After months of nasty exchanges and lawsuits, Enron and Maharashtra negotiators agreed to revive the Dabhol project. The new deal required that Enron cut the project's cost from \$2.9 billion to \$2.5 billion, lower the proposed electricity rates, and make a state-owned utility a 30 percent partner in the project. A satisfied Joshi, the chief minister, stated: "Maharashtra has gained tremendously by this decision." Enron needed to make a major concession to demonstrate that its global power projects were still on track. The new deal led Enron to withdraw a lawsuit seeking \$500 million in damages from Maharashtra for the cancellation of the Dabhol project.



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Answer the followings:

1. Analyze the key missteps Enron committed in India.
2. Explore alternative strategies Enron could have employed to prevent its difficulties in India.

(10 Marks) CO2