Case study on international financial management

Finance, Investment

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Ans-1)

United States (US) and China are two important countries of the world which are known due to its high capability and immense economic power. United States is the largest economy of the world which has a Gross Domestic Product (GDP) of US$ of trillions of Dollars, while the GDP of China is in Billions of Dollars, associated with the long term productivity of the countries in total.

Exchange rate could be extremely effective and important to analyze the financial and economical competiveness of a country in total with the other country as a whole. In this section, it is required to analyze the appreciation and depreciation among the exchange rate of US Dollars against a currency of the world and we have selected Chinese Currency for this particular answer.

It could be seen from the above mentioned figure that the power of US Dollars against the Chinese Yuan fluctuated a lot from 1995 to 2007 period of time. Most of the time, the US Dollar depreciated against the Chinese Yuan merely because of the Terrorism activities happened in that time period in total. US dollar was at the lowest position against the Chinese Yuan in the year 2007, in which it appreciated to -4. 61% against the last year’s appreciation in total. Fluctuation against the Chinese Yuan is an indication that the stability in the US Dollar is not effective. In a matter of 13 years, the average increment or decrement in the value of US Dollar against the Chinese Yuan was -0. 96% in total.

Uncovered Interest Rate from US Viewpoint

Uncovered Interest Rate is basically a rate which analyze the rate of parity among two different countries of the world, Interest rate could be extremely important for a country because it analyzes the level of the interest rates accordingly. Interest Rates should be diverse on a level that it could be extremely effective for the countries. Mentioned below is the rate of return (Uncovered) from the US viewpoint.

Uncovered rate of Return from Foreign Countries Viewpoint

Likewise we have analyzed the uncovered rate of return from the US viewpoint; there is an uncovered rate of return which has been visualized from the standpoint of the foreign country as well. The foreign country in our particular scenario is Chinese Yuan which is in the analytical provision with the second country which is United States. Same analytical procedure and formula would have been taken into consideration for this analysis too. The computed table and graph of the same is mentioned below in details,

Ans-4)

Interest Rate and Exchange Rate Changes

In this section, it is required to analyze the interest rate, exchange rate changes in both of the selected countries in total and there difference too. A country which lesser amount of interest rate would be more worthwhile as compared to the country which has high amount of interest rate prevailing. Mentioned below is the table which is showing the actual interest rate of the countries along with their exchange rates and its perception from the viewpoint of both of them.

The interest rate of China is comparatively higher than that of the interest rate of United States, which is showing that a borrower would ruin in China because they have to return back higher amount of money, they borrowed as compared to the borrow amount in the United States (US). It could be a strategy from which different things could have been taken into account for the sake of the countries in total. It would be extremely effective from the viewpoint of the borrowers as well as other users which may be privately held companies in total. By contrast to this, a borrower in the United States (US) has to give lesser amount of money to the bank and financial institution based on the current interest rate of the countries.

Ans-5)

Total profit Earned in US Dollars

If a person has its prevailing interest rate in a specific currency then it must have certain earned profit accordingly. The average Interest rate prevailing in both of the countries are mentioned below,

The average prevailing interest rate of the United States is 4. 34%, while it is 4. 68% for China, which means that the prevailing interest rate is higher

Now if an investor purchased Chinese currency from US on 4. 34% rate and sell it in the Chinese market at a rate of 4. 68%

= 4. 68 – 4. 34 = 0. 34%

= 1, 000, 000 * 0. 34%

Profit would be = 3, 400 $

Total Equity Would become in this particular scenario 1, 034, 000

The rate of return in this particular scenario would be 0. 34%. This particular profit maximizing is known as Arbitrage Profit Maximization state, in which a person could earn economic profit by buying a thing from a specific market and then sell the same in different market.