Here is the story… we are to use the Indian Rupee in place of the Thai baht

As a financial analyst for Blades, Inc., you are reasonably satisfied with Blades’ current setup of exporting “Speedos” (roller blades) to Thailand. Due to the unique arrangement with Blades’ primary customer in Thailand, forecasting the revenue to be generated there is a relatively easy task. Specifically, your customer has agreed to purchase 180,000 pairs of Speedos annually, for a period of three years, at a price of THB4,594 (THB = Thai baht) per pair. The current direct quotation of the dollar-baht exchange rate is $0.024. The cost of goods sold incurred in Thailand (due to imports of the rubber and plastic components from Thailand) runs at approximately THB2,871 per pair of Speedos, but Blades currently only imports materials sufficient to manufacture about 72,000 pairs of Speedos. Blades’ primary reasons for using a Thai supplier are the high quality of the components and the low cost, which has been facilitated by a continuing depreciation of the Thai baht against the U.S. dollar. If the dollar cost of buying components becomes more expensive in Thailand than in the United States, Blades is contemplating providing its U.S. supplier with the additional business. Your plan is quite simple; Blades is currently using its Thai-denominated revenues to cover the cost of goods sold incurred there. During the last year, excess revenue was converted to U.S. dollars at the prevailing exchange rate. Although your cost of goods sold is not

fixed contractually as the Thai revenues are, you expect them to remain relatively constant in the near future. Consequently, the baht-denominated cash inflows are fairly predictable each year because the Thai customer has committed to the purchase of 180,000 pairs of Speedos at a fixed price. The excess dollar revenue resulting from the conversion of baht is used either to support the U.S. production of Speedos if needed or to invest in the United States. Specifically, the revenues are used to cover cost of goods sold in the U.S. manufacturing plant, located in Omaha, Nebraska. Ben Holt, Blades’ CFO, notices that Thailand’s interest rates are approximately 15 percent (versus 8 percent in the United States). You interpret the high interest rates in Thailand as an indication of the uncertainty resulting from Thailand’s unstable economy. Holt asks you to assess the feasibility of investing Blades’ excess funds from Thailand operations in Thailand at an interest rate of 15 percent. After you express your opposition to his plan, Holt asks you to detail the reasons in a detailed report.