Name : …………………………………………………………….

Roll No. : …………………………………………………………

Invigilator's Signature : …………………………………….

CS/MBA/SEM-4 (FT) & 6 (PT)/FM-405/2013

2013

INTERNATIONAL FINANCE

Time Allotted : 3 Hours   Full Marks : 70

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following :

$$10 \times 1 = 10$$

   i)   Money market hedge involves

   a)   going for a forward contract

   b)   going for a future contract

   c)   a position to cover a future payables or receivales

   d)   interest rate swap.

25020 (MBA)   [Turn over

ii)   Components of globalization is

   a)   free flow of capital

   b)   free flow of technology

   c)   reduction of trade barriers

   d)   all of these.

iii)   International business activity includes

   a)   licensing

   b)   franchising

   c)   establishing new foreign subsidiary

   d)   all of these.

iv)   What is the exchange rate system followed in India ?

   a)   Fixed peg system

   b)   Crawling peg system

   c)   Managed floating system

   d)   Independently floating system.

v)   The Bretton Woods system fell apart because

   a)   of the oil crisis

   b)   U.S. monetary policy was too explanatory

   c)   U.S. ran a large trade deficit

   d)   none of these.

vi) A manufacturing company buys foreign exchange from a bank at the latter's.

   a) Buying rate   b) PIR

   c) Repo rate   d) Selling rate.

vii) Which of the following system collapses is related to Triffin Paradox ?

   a) Gold standard

   b) Bretton Woods

   c) Exchange rate mechanisms (1992)

   d) Both (a) and (b).

viii) For depreciation to have a positive effect on the current account, the sum of elasticity of the demand for imports and exports must be

   a) less than unity

   b) equal to unity

   c) greater than unity

   d) equal to zero.

ix) Cross Hedging a foreign currency is normally done when

   a) futures contract on the currency is available

   b) forward contract on the currency is available

   c) option contract on the currency is available

   d) none of these.
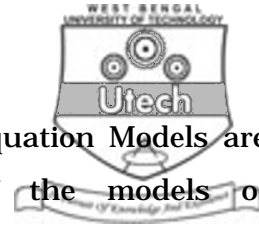
x) Single Equation Models and Multi Equation Models are models associated with which of the models of Exchange Rate Forecasting ?

    a) Econometric model

    b) Time series model

    c) Judgmental forecasting models

    d) Market based model.

xi) If the price of a futures contract hits a limit, the market is said to experience a

    a) limit down

    b) limit up

    c) limit move

    d) limit stand.

xii) In case of a swap, when the principal declines with time is called

    a) Depreciating swap

    b) Losing capital swap

    c) Declining swap

    d) Amortizing swap.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following.   3 × 5 = 15

2. Describe the relationship shop between Balance of Payments and Foreign Exchange markets.

3. Why did Smithsonian Agreement failed to salvage the Bretton Woods System ?

4. Differentiate between Forwards and Futures.

5. Assume a Call option on Euros is written with a strike price of USD 0·9400/Euro at a premium of USD 0·0090/Euro and with an expiration date three months from now. The option is for Euro 100000. Calculate your profit or loss if you exercise before maturity at a time when the Euro is traded spot at (a) USD 0·9000/Euro, (b) USD 0·9400/Euro, (c) USD 0·9600/Euro, (d) USD 0·9800/Euro and (e) USD 1·0200/Euro (show your answer in a table format).

6. Explain the following statement : "Exposure is the regression coefficient".

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following.   3 × 15 = 45

7. How are the operations of International Firms affected by the Exchange Rate system, the presence of Capital Controls and the Segmentation of Capital Markets ?

8. Alpha and Beta companies can borrow for a five year term at the following rates :

	Alpha	Beta
Moody's Credit rating	Aa	Baa
Fixed rate borrowing cost	10·5%	12·0%
Floating rate borrowing cost	LIBOR	LIBOR + 1%

 a) Calculate the Quality Spread Differential (QSD).   3

 b) Develop an interest rate swap in which both Alpha and Beta have an equal cost savings in their borrowing costs. Assume Alpha desires floating rate debt and Beta desires fixed rate debt. No Swap Bank is involved in the transaction.   12

9. a) State Interest Rate Parity theorem.   6

 b) From the following information, find out arbitrage gain

  1 year forward rate AUD/GBP   2.6500

  Spot rate AUD/GBP   2.7500

  1 year AUD interest rate   8%

  1 year GBP interest rate   4%

     9

10. a) What is an efficient frontier ? What does international diversification do to the efficient frontier ?   8

 b) What are the problems associated with evaluating FDI projects that are different from those associated with the evaluation of domestic direct investment projects ?

     7

11. Write short notes on any *three* of the following : 3 × 5

    a)   Purchasing Power Pavity

    b)   Fisher effect

    c)   LIBOR

    d)   Euro-dollar

    e)   Preferential Trade Agreement.