



Name :

Roll No. :

Invigilator's Signature :

CS/MBA (OLD)/SEM-(4FT & 6PT)/FM-405/2010

2010

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

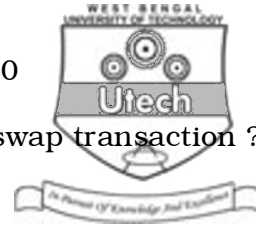
(Multiple Choice Type Questions)

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

10 × 1 = 10

- i) Which balance of the balance of payment is influenced by the invisibles ?
 - a) Trade balance
 - b) Current Account balance
 - c) Capital Account balance
 - d) None of these.

- ii) Country *A* provides floor relief to country *B*. What kind of transfer it is ?
 - a) Requited physical transfer
 - b) Requited financial transfer
 - c) Unrequited transfer
 - d) No transfer at all.



- iii) What are the motives there behind a swap transaction ?
- a) Interest risk management
 - b) Currency risk management
 - c) All of these
 - d) None of these.
- iv) What is the basic objective of an MNC ?
- a) Maximization of profit
 - b) Maximization of shareholders' wealth
 - c) Extension of business
 - d) All of these.
- v) An Indian firm exports Rs. 1 crore worth of goods to UK to be paid in three months. In this case, Current Account of India is credited by
- a) Short term capital inflow
 - b) Short term capital outflow
 - c) Merchandise export
 - d) Merchandise import.
- vi) In which option does the buyer get the right to sell the underlying asset ?
- a) Call Option
 - b) Put Option
 - c) American Option
 - d) None of these.



- vii) The time value of an option contract on the date of maturity is
- a) more than intrinsic value
 - b) zero
 - c) negative
 - d) none of these.
- viii) The quotes that give units of the currency of a country per unit of a foreign currency is
- a) Direct quote
 - b) Indirect quote
 - c) Cross rate
 - d) none of these.
- ix) Marking to market means that at the end of a trading session, all outstanding contracts are
- a) Re-priced at the settlement price of that session
 - b) Re-priced at the settlement price of the previous session
 - c) None of these.
- x) Which is the most important currency in the world after the collapse of Breton Woods ?
- a) Euro
 - b) Yen
 - c) Sterling
 - d) US Dollar.
- xi) The investment income from abroad appears under .head_of BOP statement.
- a) Merchandize account
 - b) Capital account
 - c) Invisibles account
 - d) Unilateral transfer account.



xii) Which of the following is not an underlying assumption of Purchasing Power Parity ?

- a) Goods can move freely across the globe
- b) Capital can move freely across the globe
- c) There are no tariffs on goods
- d) There are no transaction costs in buying and selling goods.

GROUP – B
(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. Distinguish between Domestic Finance Management and International Finance Management.
3. Write short notes on the following :
 - a) Crawling Peg and
 - b) Snake in the tunnel.
4. Distinguish between Forward & Future.
5. Write brief notes on the following :
 - a) Euro and
 - b) Cross rate.
6. Compare between the functioning of IMF & IBRD.
7. Write in brief about significance of Bretton Wood Agreement and its weaknesses.



GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

8. a) Explain the concept of Gold-Standard. How does Gold-Standard automatically balance demand-supply imbalance ?
- b) Describe the different components of BOP. $2 + 8 + 5$
9. a) Show that countries with higher rates of inflation should bear higher interest rates than countries with lower rates of inflation. Explain.
- b) Interest rate in the U.S is 12%, in Japan the comparable rate is 7%. The spot rate for the Yen is \$ 0.0038. If interest parity holds, what is the 180-day forward rate ?
- c) What is special drawing right ? $8 + 5 + 2$
10. a) Discuss the difference between translation exposure, transaction exposure & operating exposure.
- b) Many managers prefer to use option to hedge their exposure because it allows them the possibility of capitalizing on favourable moments in the exchange rate. In contrast, a company using forward contracts avoids the downside but also loses the upside potential as well. Comment on this strategy. $7 + 8$



11. a) What do you mean by swap ?

b) Differentiate between interest rate swap and currency swaps with examples.

c) Differentiate between Hedging and Swaps. 4 + 8 + 3

12. PXE Company is a US firm that exports products to the

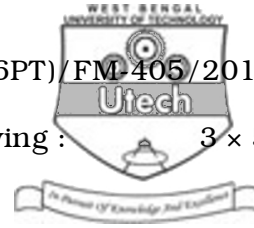
United Kingdom. The FX revenue exposure to the pound is

1. Ignoring taxes and depreciation, PXE has revenues of \$800, costs of \$600, and operating cash flow of \$200. Eighty per cent of PXE's operating costs are stable in US dollars.

The other 20% have an FX cost exposure to the pound of 1.

Use equation (5.3) to approximate PXE's FX operating exposure to the pound. What would be the FX operating

exposure if all the costs are stable in US dollars ? 15



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

- a) Trade Deficit
- b) GDP
- c) Interest Rate Parity Theory
- d) Export Subsidy
- e) Free Trade Agreement
- f) Sustainable Development.

=====