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Roll No.

BCH-605(F4)

B. COM. (H) (SIXTH SEMESTER)

END SEMESTER

EXAMINATION, June, 2023

MULTINATIONAL FINANCIAL SYSTEM

Time : Three Hours

Maximum Marks : 100

Note : (i) All questions are compulsory.

**(ii) Answer any *two* sub-questions among
(a), (b) and (c) in each main question.**

**(iii) Total marks in each main question are
twenty.**

(iv) Each sub-question carries 10 marks.

- 1. (a) Define international finance and discuss its
growth and importance in the global
business environment. (CO1)**

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- (b) Describe the concept of reward in international finance and discuss its significance in decision-making for multinational corporations. (CO1)
- (c) Discuss the role of financial institutions, such as central banks and regulatory bodies, in managing risks and ensuring stability in international finance. (CO1)
- 2. (a) Discuss the measures of political risk and their relevance in international capital budgeting. Explain the strategies for managing political risk in multinational financial management. (CO2)
- (b) Write a short note on the following :(CO2)
 - (i) Value Added Tax
 - (ii) Branch versus Subsidiary Taxes
- (c) Differentiate between branch and subsidiary taxes and discuss their respective advantages and disadvantages. (CO2)
- 3. (a) Identify and explain short-term overseas financing sources available to

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- multinational corporations. Discuss the advantages and disadvantages of each source. (CO3)
- (b) Mention the characteristics and benefits of tax havens in international tax planning. (CO3)
- (c) Mention various assumptions of CAPM Model. (CO3)
- 4. (a) Elaborate the cost of capital for foreign investment and its role in designing the financial structure of multinational corporations. Explain the factors that influence the cost of capital in an international context. (CO4)
- (b) Evaluate the challenges and potential consequences of multinational transfer pricing in terms of tax compliance and avoidance. (CO4)
- (c) A company is considering whether to purchase a new machine. Machines A and

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B are available for \$80,000 each. Earnings after taxation are as follows : (CO4)

Year	Machine A	Machine B
1	24,000	8,000
2	32,000	24,000
3	40,000	32,000
4	24,000	48,000
5	16,000	32,000

Required : Evaluate the two alternatives using the following : (i) rate of return on investment method, and (ii) net present value method, using discount rate of 10%.

5. (a) Outline the benefits of international portfolio investment. Discuss the concept of spreading risk through international capital asset pricing and international diversification. (CO5)
- (b) An investor had purchased in some stocks one year back. During that period, the overall market has grown by 8%, while the stock purchased by him has generated a return of 9%. The relevant 10-year

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treasury bills are trading at 4.5% per annum. The stocks purchased have a beta of 1.2 when compared to the market, i.e. the stock is riskier than the market. The investor wants to evaluate whether the stock generated adequate return given its risk level. Help the investor to calculate the expected rate of return based on the capital asset pricing model. (CO5)

- (c) Do you think the acquisition of a foreign firm or licensing will result in greater growth for an MNC ? Which alternative is likely to have more risk ? (CO5)