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End Semester Examination 2022

Name of the Program: MBA

Semester: IV

Name of the Course: International Finance

Course Code: MB 402 F1

Paper Name: International Finance

Time: 3 Hours

MM: 100

Note:

- (i) This question paper contains two sections.
- (ii) Both sections are compulsory.

Section – A

Q1. Fill in the blanks/True-False

(1 X 10 = 10 Marks)

- a) Exchange rate entail delivery of trade currency within two business days know as spot rate. (True/False)
- b) Bid quote is for seller . (True/False).
- c) If a company agreements today for several future date of real currency exchange, they will be building use of a forward rate (True/False).
- d) A simultaneous purchase and sale of foreign exchange for two different dates is currency swap (True/False).
- e) Today, important factor that result in augmentation in international bond market is low interest rate (True/False)
- f) The exchange markets and over the counter markets are considered as two types of secondary markets. (True/False)
- g) IMF helps countries to meet deficit in BOP. (True/False)
- h) The Purchasing Power Parity (PPP) theory is a good predictor of interest rate differentials between two countries when there are strong barriers preventing trade between the two countries (True/False).
- j) The forward market is especially well-suited to offer hedging protection against Translation risk exposure.(True/False).

Section – B

Note:

Answer all the questions by choosing *any two of the sub questions* from a, b, c & question 'd' is Compulsory

Q.2	(10 x 2=20 Marks)	
a)	Discuss the recent changes and challenges in international financial management.	CO 1& CO2
b)	Explain the theory of Purchasing Power Parity. Based on this theory , what is the general forecast of the values of currencies in countries with high inflation?	
c)	Explain Interest Rate Parity (IRP) . What are the considerations to be kept in mind when assessing IRP.	
d)	Case let/ Numerical (Compulsory) (10 Marks) You have \$ 8,00,000 to invest. Current spot rate of pound is \$1.60 90 day forward rate of pound is \$ 1.60 90 day interest rate in USA is 2% 90 day interest rate in UK is 4% Based on this information , is covered interest arbitrage by USA investors feasible? Explain.	
Q.3	(10 x 2=20 Marks)	
a)	Why should capital budgeting for subsidiary projects be assessed from the parent's perspective? What additional factors that are not relevant for a purely domestic project deserve consideration in multinational capital budgeting ?	CO 2 & 3
b)	What are the fundamental factors that affect the exchange rates? Explain with examples the various time-series forecasting methods.	
c)	Discuss the various sources of financing international trade.	
d)	Case let/Numerical (Compulsory) (10 Marks) A firm with a 30% marginal tax rate has a capital structure of \$70,000,000 in equity (at market) and \$50,000,000 in debt (also at market). What is the firm's weighted average cost of capital if the marginal pre-tax cost of debt is 4%, and the cost of equity is 10%?	
Q.4	(10 x 2=20 Marks)	
a)	Define Transaction exposure. What are the strategies to hedge	CO 4 & 5

	transaction exposure?	
b)	Define Economic exposure. Discuss various strategies to hedge economic exposure?	
c)	What is currency swap? Discuss accounting implications of forex transactions.	
d)	<p>Case let/ Numerical (Compulsory)</p> <p>(10 Marks)</p> <p>Company A a USA based Company wants to enter Euro market. It requires Euro 8,50,000 to finance European expansion. On the other hand company B a German company wants to acquire a USA company. The acquisition deal requires US \$ 1 Million. Neither company A nor Company B hold enough cash to finance respective operations. Design a currency swap between the two companies using hypothetical figures. Show how companies gain through swap arrangement.</p>	