

Enrollment No.....



Faculty of Commerce
End Sem (Odd) Examination Dec-2019
CM3EA01 Basic International Finance

Programme: B.Com.(Hons)

Branch/Specialisation: Commerce

Duration: 3 Hrs.**Maximum Marks: 60**

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d.

- Q.1 i. In the foreign exchange market, the _____ of one country is 1
traded for the _____ of another country.
(a) Currency; currency (b) Currency; financial instruments
(c) Currency; goods (d) Goods; goods
- ii. By definition, currency appreciation occurs when 1
(a) The value of all currencies fall relative to gold.
(b) The value of all currencies rise relative to gold.
(c) The value of one currency rises relative to another currency.
(d) The value of one currency falls relative to another currency.
- iii. The date of settlement for a foreign exchange transaction is referred to 1
as:
(a) Clearing date (b) Swap date
(c) Maturity date (d) Value date
- iv. Under a gold standard, 1
(a) A nation's currency can be traded for gold at a fixed rate
(b) A nation's central bank or monetary authority has absolute control over its money supply
(c) New discoveries of gold have no effect on money supply or prices
(d) Both (a) and (b)
- v. If purchasing power parity were to hold even in the short run, then: 1
(a) Real exchange rates should tend to decrease over time;
(b) Quoted nominal exchange rates should be stable over time.
(c) Real exchange rates should tend to increase over time;
(d) Real exchange rates should be stable over time;

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- vi. A forward currency transaction: **1**
 (a) Is always at a premium over the spot rate.
 (b) Means that delivery and payment must be made within one business day (USA/Canada) or two business days after the transaction date.
 (c) Calls for exchange in the future of currencies at an agreed rate of exchange.
 (d) Sets the future date when delivery of a currency must be made at an unknown spot exchange rate.
- vii. Which of the following is not a type of foreign exchange exposure? **1**
 (a) Tax exposure (b) Translation exposure
 (c) Transaction exposure (d) Balance sheet exposure
- viii. Which of the methods below may be viewed as most effective in protecting against economic exposure? **1**
 (a) Futures market hedging
 (b) Forward contract hedges
 (c) Geographical diversification
 (d) Money market hedges
- ix. Hedging is used by companies to: **1**
 (a) Decrease the variability of tax paid
 (b) Decrease the spread between spot and forward market quotes
 (c) Increase the variability of expected cash flows
 (d) Decrease the variability of expected cash flows
- x. Interest rate swaps are usually possible because international Financial markets in different countries are: **1**
 (a) Efficient (b) Perfect (c) Imperfect (d) Both (a) and (b)
- Q.2 i. What do you understand by International Trade? **2**
 ii. What do you understand by Balance of Payment? **3**
 iii. Write down any five importance of International Business? **5**
 OR iv. Write an essay on International Trade Finance in India. **5**
- Q.3 i. Write down any four roles of IMF. **4**
 ii. Write short note on: **6**
 (a) Gold Standard Rate (b) Gold Exchange Standard

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- OR iii. Define different types of exchange rate Mechanism? **6**
- Q.4 i. Write short note on: **4**
 (a) Spot Rate (b) Forward Rate
 ii. What are the Factors affecting Exchange Rate? Discuss in detail. **6**
 OR iii. Write a short note on: **6**
 (a) Purchasing power of parity
 (b) Interest rate parity
- Q.5 Attempt any two:
 i. Write various types of Foreign Exchange exposures? **5**
 ii. How Financial Accounting is related to Foreign Exchange? **5**
 iii. What do you understand by statement of Financial Accounting? **5**
- Q.6 i. How to measure political risk of other country? **4**
 ii. Write down the features of Swaps and options. **6**
 OR iii. State the Foreign Exchange dealings and risk management system. **6**

Marking Scheme
CM3EA01 Basic International Finance

Q.1	i.	In the foreign exchange market, the _____ of one country is traded for the _____ of another country.	1
		(a) Currency; currency	
	ii.	By definition, currency appreciation occurs when	1
		(c) The value of one currency rises relative to another currency.	
	iii.	The date of settlement for a foreign exchange transaction is referred to as:	1
		(d) Value date	
	iv.	Under a gold standard,	1
		(a) A nation's currency can be traded for gold at a fixed rate	
	v.	If purchasing power parity were to hold even in the short run, then:	1
		(d) Real exchange rates should be stable over time;	
	vi.	A forward currency transaction:	1
		(c) Calls for exchange in the future of currencies at an agreed rate of exchange.	
	vii.	Which of the following is not a type of foreign exchange exposure?	1
		(a) Tax exposure	
	viii.	Which of the methods below may be viewed as most effective in protecting against economic exposure?	1
		(c) Geographical diversification	
	ix.	Hedging is used by companies to:	1
		(d) Decrease the variability of expected cash flows	
	x.	Interest rate swaps are usually possible because international Financial markets in different countries are:	1
		(c) Imperfect	

Q.2	i.	Meaning of International Trade	2 marks	2
		(As per explanation)		
	ii.	Meaning of Balance of Payment	3 marks	3
		(As per explanation)		
	iii.	Five importance of International Business	(1 mark*5)	5
OR	iv.	International Trade Finance in India.		5
		(As per explanation)		

Q.3	i.	Four roles of IMF.	(1 mark*4)	4
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	ii.	Write short note on:		6
		(a) Gold Standard Rate	3 marks	
		(b) Gold Exchange Standard	3 marks	
OR	iii.	Meaning of exchange rate Mechanism	2 marks	6
		Types of exchange rate Mechanism	4 marks	
Q.4	i.	Write short note on:		4
		(a) Spot Rate	2 marks	
		(b) Forward Rate	2 marks	
	ii.	Factors affecting Exchange Rate(Details)	(1 mark*6)	6
OR	iii.	Write a short note on:		6
		(a) Purchasing power of parity	3 marks	
		(b) Interest rate parity	3 marks	
Q.5		Attempt any two:		
	i.	Types of Foreign Exchange exposures	(1 mark*5)	5
	ii.	Financial Accounting is related to Foreign Exchange		5
		(As per explanation)	5 marks	
	iii.	Statement of Financial Accounting		5
		(As per explanation)	5 marks	
Q.6	i.	Measure political risk of other country		4
		(As per explanation)	4 marks	
	ii.	Features of Swaps	3 marks	6
		Features of options.	3 marks	
OR	iii.	Foreign Exchange dealings	3 marks	6
		Risk management system.	3 marks	
