

Enrollment No.....

Faculty of Commerce
End Sem (Odd) Examination Dec-2022
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. Which of the following is not a component of the balance of payments? **1**
 (a) Real account (b) Current account
 (c) Capital account (d) None of these
- ii. Import and export of services are known as _____. **1**
 (a) Nominal trade (b) Invisible trade
 (c) Visible trade (d) None of these
- iii. When did the IMF functioning? **1**
 (a) 1945 (b) 1947 (c) 1946 (d) 1948
- iv. What are the forms of assistance that the World Bank provides to its members? **1**
 (a) Technical and financial (b) Political and financial
 (c) Political and economic (d) Technical and military
- 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.
- vi. Theory which considers change in exchange rate with fluctuations in inflation rates is classified as- **1**
 (a) Liquidated power parity (b) Purchasing power parity
 (c) Selling power parity (d) Volatile power parity
- vii. A foreign exchange _____ is the price of a foreign currency. **1**
 (a) Rate (b) Market (c) Management (d) Finance

P.T.O.

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- viii. Types of foreign exchange exposure are- **1**
 (a) Transaction exposure (b) Operating exposure
 (c) Translation exposure (d) All of these
- ix. The forward market is especially well-suited to offer hedging protection against- **1**
 (a) Translation risk exposure
 (b) Transactions risk exposure
 (c) Political risk exposure
 (d) Taxation
- x. Example of derivative securities includes- **1**
 (a) Swap contract (b) Option contract
 (c) Futures contract (d) All of these
- Q.2 i. Explain the concept of trade to most countries grown in recent decades. **3**
 ii. Distinguish between international finance and international business. **7**
- OR iii. What is balance of payment? Explain the different components of balance of payment. **7**
- Q.3 i. What do you mean by gold exchange standard? **2**
 ii. Describe the role played by IMF in resolving financial crises in the global economic system. **8**
- OR iii. Explain the Bretton Woods system of exchange rates in detail. **8**
- Q.4 i. Describe Interest rate parity. **2**
 ii. Explain the following term: **8**
 (a) Spot rate (b) Forward rate
 (c) Cross rate (d) Exchange rate
- OR iii. Explain the absolute and relative versions of the purchasing power parity theory. **8**
- Q.5 i. Define transaction exposure. **2**
 ii. Describe the different types of foreign exchange exposures. **8**
- OR iii. When does translation exposure arise? Why is it known as accounting exposure? **8**

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- Q.6 Attempt any two: **5**
- i. Write short notes on the following: **5**
 (a) Swap (b) Future (c) Options
- ii. Suggest policy modifications that may be required for managing political risk. **5**
- iii. Explain how a forward hedge or future hedge may be used for managing risk. **5**

Marking Scheme
CM3EA01 Basic International Finance

Q.1	i.	Which of the following is not a component of the balance of payments?	1
		(a) Real account	
	ii.	Import and export of services are known as ____.	1
		(b) Invisible trade	
	iii.	When did the IMF functioning?	1
		(a) 1945	
	iv.	What are the forms of assistance that the World Bank provides to its members?	1
		(d) Technical and military	
	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.	Theory which considers change in exchange rate with fluctuations in inflation rates is classified as-	1
		(b) Purchasing power parity	
	vii.	A foreign exchange ____ is the price of a foreign currency.	1
		(a) Rate	
	viii.	Types of foreign exchange exposure are-	1
		(d) All of these	
	ix.	The forward market is especially well-suited to offer hedging protection against-	1
		(a) Translation risk exposure	
	x.	Example of derivative securities includes-	1
		(d) All of these	
Q.2	i.	Concept of trade to most countries grown in recent decades.	3
	ii.	Distinguish between international finance and international business.	7
		1 mark for each differences (1 Mark *7)	
OR	iii.	Balance of payment	7
		Components of balance of payment	5 marks
Q.3	i.	Meaning of gold exchange standard	2
	ii.	Meaning of IMF	8
		Role played by IMF	7 marks

OR	iii.	Bretton Woods system of exchange rates		8
		Meaning	1 mark	
		Explanation	7 marks	
Q.4	i.	Definition Interest rate parity.		2
	ii.	Explain the following term: 2 marks for each (2 marks * 4)		8
		(a) Spot rate (b) Forward rate		
		(c) Cross rate (d) Exchange rate		
OR	iii.	Absolute and relative versions of the purchasing power parity theory		8
		As per explanation		
Q.5	i.	Define transaction exposure.		2
	ii.	Types of foreign exchange exposures.		8
		2 marks for each type (2 marks * 4)		
OR	iii.	Translation exposure	4 marks	8
		Accounting exposure	4 marks	
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Q.6		Attempt any two:		
	i.	Write short notes on the following:		5
		(a) Swap	2 marks	
		(b) Future	1.5 marks	
		(c) Options	1.5 marks	
	ii.	Policy modifications that may be required for managing political risk		5
		1 mark for each point (1 mark *5)		
	iii.	A forward hedge or future hedge may be used for managing risk		5
		As per explanation		
