

Q.5	i.	What is the primary principle of the Purchasing Power Parity (PPP) theory in exchange rate determination?	4	3	2	4
	ii.	Define Interest Rate Parity (IRP) and explain its significance in international finance.	6	5	3	4
OR	iii.	Explain the theory of Purchasing Power Parity (PPP) and discuss its assumptions and limitations in predicting long-term exchange rate movements.	6	5	3	4
Q.6		Attempt any two:				
	i.	Explain Foreign Direct Investment (FDI) and its significance for multinational corporations.	5	3	3	5
	ii.	Define economic exposure and explain why it is important for MNCs to manage it.	5	5	2	5
	iii.	What are the key differences between economic, transaction, and translation exposure?	5	5	1	5

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Total No. of Questions: 6

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Enrollment No.....



Faculty of Management Studies

End Sem Examination Dec 2024

MS5EF07 International Finance

Programme: MBA

Branch/Specialisation: Management

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. Assume suitable data if necessary. Notations and symbols have their usual meaning.

			Marks	BL	PO	CO	PSO
Q.1	i.	A major reason for the European Debt Crisis was:	1	1	1	1	
		(a) Strong government revenue and high GDP growth					
		(b) High levels of public debt in certain Eurozone countries					
		(c) Low unemployment rates across Europe					
		(d) Stable banking systems across the Eurozone					
	ii.	Which of the following exchange rate regimes allows the currency to fluctuate freely based on market forces?	1	1	1	1	
		(a) Fixed exchange rate					
		(b) Pegged exchange rate					
		(c) Floating exchange rate					
		(d) Dual exchange rate					
	iii.	Which of the following financial instruments is a short-term unsecured debt issued by corporations?	1	1	2	2	
		(a) Bonds					
		(b) Commercial Papers					
		(c) Equity Shares					
		(d) Debentures					
	iv.	Which of the following best describes Euro Bonds?	1	1	2	2	
		(a) Bonds issued in Europe in local currency only					
		(b) Bonds issued by European companies only					
		(c) International bonds issued outside the home country of the issuer, denominated in a foreign currency					
		(d) Bonds regulated only by European Central Bank policies					

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v.	Which of the following factors primarily influences exchange rates?	<b>1</b>	1	3 3
	(a) Political stability and economic performance			
	(b) Seasonal weather patterns			
	(c) Literacy rate of a country			
	(d) Local real estate market			
vi.	In an indirect quotation of a foreign exchange rate:	<b>1</b>	1	2 3
	(a) Foreign currency is expressed per unit of the domestic currency			
	(b) Domestic currency is expressed per unit of the foreign currency			
	(c) The rate is fixed by the government			
	(d) Only banks use this quotation method			
vii.	The concept of Purchasing Power Parity (PPP) suggests that:	<b>1</b>	1	4 4
	(a) The same goods should cost the same in different countries when expressed in a common currency			
	(b) Interest rates in all countries should be equal			
	(c) Exchange rates are determined only by the supply and demand of currencies			
	(d) Asset prices should be stable across countries			
viii.	A major difference between PPP and IRP is that:	<b>1</b>	1	2 4
	(a) PPP focuses on price levels, while IRP focuses on interest rates			
	(b) IRP applies only in the short term, while PPP is for the long term			
	(c) PPP considers capital flows, while IRP does not			
	(d) PPP is based on investor expectations, while IRP is not			
ix.	Which of the following is a primary driver for multinational corporations (MNCs) to expand internationally?	<b>1</b>	1	2 5
	(a) Limited competition in domestic markets			
	(b) Access to new markets and resources			
	(c) Increasing domestic taxes			
	(d) Lowering employee wages			

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x.	The primary focus of managing economic exposure in international finance is to:	<b>1</b>	1	3 5
	(a) Minimize the impact of exchange rate fluctuations on a firm's market value			
	(b) Control the currency for all international transactions			
	(c) Ensure stable foreign exchange reserves			
	(d) Manage tax policies in host countries			
Q.2	i. What are the primary types of exchange rate regimes?	<b>2</b>	2	1 1
	ii. What is international finance?	<b>3</b>	3	2 1
	iii. What is exchange rate? How did the collapse of the Bretton Woods system influence the evolution of exchange rate regimes globally?	<b>5</b>	4	5 1
OR	iv. What is managed float exchange rate system? Why do countries adopt a managed float exchange rate system, and what are its potential challenges?	<b>5</b>	4	5 1
Q.3	i. What is the purpose of the Asian Development Bank (ADB)?	<b>4</b>	2	6 2
	ii. What are the primary uses of funds raised through commercial papers, and what impact does this form of financing have on a company's working capital management?	<b>6</b>	5	4 2
OR	iii. Explain the process of issuing Global Depository Receipts (GDRs) and American Depository Receipts (ADRs) by companies. How do these instruments benefit both the issuing company and investors?	<b>6</b>	4	4 2
Q.4	i. Explain the difference between the spot market and the forward market in foreign exchange.	<b>4</b>	3	3 3
	ii. How does the concept of arbitrage work in the foreign exchange market? Explain with an example of arbitrage.	<b>6</b>	5	2 3
OR	iii. Differentiate between direct and indirect foreign exchange rate quotations. Provide examples of both.	<b>6</b>	5	1 3

**Marking Scheme**  
**MS5EF07 (T) International Finance (T)**

Q.1	i)	b) High levels of public debt in certain Eurozone countries	1	
	ii)	c) Floating exchange rate	1	
	iii)	b) Commercial Papers	1	
	iv)	c) International bonds issued outside the home country of the issuer, denominated in a foreign currency	1	
	v)	a) Political stability and economic performance	1	
	vi)	a) Foreign currency is expressed per unit of the domestic currency	1	
	vii)	a) The same goods should cost the same in different countries when expressed in a common currency	1	
	viii)	a) PPP focuses on price levels, while IRP focuses on interest rates	1	
	ix)	b) Access to new markets and resources	1	
	x)	a) Minimize the impact of exchange rate fluctuations on a firm's market value	1	
Q.2	i.	As per explanation	2m	2
	ii.	Meaning	3m	3
	iii.	Meaning	2m	5
		Evolution	3m	
OR	iv.	Meaning	2m	5
		Challenges	3m	
Q.3	i.	Four purpose	4m	4
	ii.	Uses	3m	6
		Impact	3m	
OR	iii.	process	4m	6
		benefit	2m	
Q.4	i.	Four difference	4m	4
	ii.	Meaning	4m	6
		Example	2m	
OR	iii.	Four difference	4m	6
		Example	2m	

Q.5	i.	(PPP) theory	4m	4
	ii.	(IRP) meaning	4m	6
		significance	2m	
OR	iii.	Meaning	2m	6
		assumptions	2m	
		Limitation	2m	
Attempt any two:				
Q.6	i.	Meaning	3m	5
		significance	2m	
	ii.	Definition	2m	5
		important	3m	
	iii.	5 differences	5m	5

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