Enrollment No......................................

Faculty of Commerce

End Sem Examination Dec-2023

CM3EA01 Basic International Finance

Programme: B.Com. 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. Assume suitable data if necessary. Notations and symbols have their usual meaning.

Q.1 i. Which of the following is a component of international finance? **1**

(a) National budgeting (b) Local investments

(c) Global financial transactions (d) Regional economic policies

ii. Which theory emphasizes that a country should export more than it imports to accumulate wealth in the form of precious metals? **1**

(a) Mercantilism (b) Absolute advantage

(c) Comparative advantage (d) Factor endowment

iii. Which exchange rate mechanism was characterized by currencies being directly convertible to a fixed quantity of gold? **1**

(a) Bretton Woods system (b) Gold Exchange Standard

(c) European Monetary Union (d) Gold Standard

iv. In the Bretton Woods system, what was the role of the International Monetary Fund (IMF)? **1**

(a) Issuing a common currency for member countries

(b) Providing long-term development loans

(c) Stabilizing exchange rates and facilitating currency convertibility

(d) Managing global trade agreements

v. According to the purchasing power parity (PPP) theory, what will happen if the inflation rate in Country A is higher than in Country B? **1**

(a) The exchange rate will appreciate

(b) The exchange rate will depreciate

(c) The exchange rate will remain unchanged

(d) The interest rates will rise

vi. What is the primary relationship between Purchasing Power Parity (PPP) and Interest Rate Parity (IRP)? **1**

(a) They are independent theories that do not influence each other
(b) PPP suggests a long-term equilibrium, while IRP deals with short-term adjustments
(c) IRP suggests a long-term equilibrium, while PPP deals with short-term adjustments
(d) They are synonymous and can be used interchangeably

vii. How does SFAS No. 52 impact financial accounting for foreign currency transactions? **1**

(a) It provides guidelines for measuring economic exposure
(b) It outlines accounting rules for translation of foreign currency financial statements
(c) It focuses on managing transaction exposure
(d) It addresses market exposure

viii. Which alternative currency translation method involves translating all items at the current exchange rate? **1**

(a) Current rate method (b) Temporal method
(c) Historical rate method (d) Monetary/non-monetary method

ix. What is the primary purpose of measuring political risk in international business? **1**

(a) To eliminate political risk entirely
(b) To quantify potential losses and uncertainties arising from political events
(c) To ignore political factors and focus solely on economic risk
(d) To standardize political systems globally

x. Which of the following is a common derivative used for hedging against currency risk? **1**

(a) Options (b) Equities (c) Bonds (d) Real estate

Q.2 i. Define international trade. **2**

ii. What does the balance of payments (BoP) measure? **3**

iii. Explain the components of the balance of payments and their significance. **5**

OR iv. Discuss the major instruments used in international trade financing. **5**

Q.3 i. Define the gold standard. **2**

ii. Explain the role of the International Monetary Fund (IMF) in the Breton Woods system. **8**

OR iii. Differentiate between the roles of the IMF and the World Bank. **8**

Q.4 i. Define foreign exchange management. **3**

ii. Discuss the factors affecting exchange rates. **7**

OR iii. Explain how forward rates are determined and their role in risk management. **7**

Q.5 i. Describe how a company can hedge against transaction exposure. **4**

ii. Explain the three main types of foreign exchange exposures. **6**

OR iii. Explain the difference between transaction exposure and translation exposure. **6**

Q.6 Attempt any two:

i. Explain the factors considered in measuring political risk in international business. **5**

ii. Describe the components of country risk analysis and their significance. **5**

iii. Explain the role of derivatives, such as options, in hedging against currency risk. **5**

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Marking Scheme
CM3EA01 Basic International Finance

Q.1	i)	c) Global financial transactions	**1**
	ii)	a) Mercantilism	**1**
	iii)	d) Gold Standard	**1**
	iv)	c) Stabilizing exchange rates and facilitating currency convertibility	**1**
	v)	b) The exchange rate will depreciate	**1**
	vi)	b) PPP suggests a long-term equilibrium, while IRP deals with short-term adjustments	**1**
	vii)	b) It outlines accounting rules for translation of foreign currency financial statements	**1**
	viii)	a) Current rate method	**1**
	ix)	b) To quantify potential losses and uncertainties arising from political events	**1**
	x)	a) Options	**1**

Q.2	i.	Define International Trade.	(As per explanation)	**2**
	ii.	Balance of payments (BoP) measure	(As per explanation)	**3**
	iii.	Balance ……. Significance	(As per explanation)	**5**
OR	iv.	Major ……… financing.	(As per explanation)	**5**
Q.3	i.	Define the Gold Standard.	(As per explanation)	**2**
	ii.	Role of the ……. Woods system.	(As per explanation)	**8**
OR	iii.	The roles of the IMF and the World Bank.	(As per explanation)	**8**
Q.4	i.	Define Foreign Exchange Management.	(As per explanation)	**3**
	ii.	The factors affecting exchange rates.	(As per explanation).	**7**
OR	iii.	Forward ……… management.	(As per explanation)	**7**
Q.5	i.	Company…….Exposure. .	(As per explanation)	**4**
	ii.	Three main ….. exposures.	(As per explanation)	**6**
OR	iii.	The difference between ….. Exposure.	(As per explanation)	**6**
Q.6				
	i.	Factors considered …….. business.	(As per explanation)	**5**
	ii.	The components …… significance.	(As per explanation)	**5**
	iii.	The role of derivatives….. …. risk.	(As per explanation)	**5**

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