

[4]

- Q.6 Attempt any two:
- i. Distinguish between transaction exposure and translation exposure. **5**
  - ii. How can firms manage their economic exposure? **5**
  - iii. What are the different ways through which firms can enter in new markets? Explain them. **5**

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Total No. of Questions: 6

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Enrollment No.....



Faculty of Management  
End Sem (Even) Examination May-2018  
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.

- Q.1 i. Which one of the following best describes subprime mortgage lending: **1**
- (a) Lending on overvalued properties
  - (b) Lending to people to buy houses who are at greater risk of being unable to meet the repayments
  - (c) Lending to people who do not have a bank account
  - (d) A bank lending to someone who is not one of their customers
- ii. Under a dirty float regime: **1**
- (a) The exchange rate is determined by market forces.
  - (b) The exchange rate is unofficially controlled by the central bank.
  - (c) The exchange rate is fixed.
  - (d) The exchange rate can move between a minimum and maximum level only.
- iii. Consider the following statements related to Asian Development bank: **1**
- I. The president has always been Japanese.
  - II. Turkey is a member of ADB.
  - III Iran is a member of ADB.
- Which of the above statements are true?
- (a) 1,2
  - (b) 2,3
  - (c) 1,3
  - (d) All of these
- iv. Interest rate on floating rate Eurobonds is paid: **1**
- (a) Monthly
  - (b) Quarterly
  - (c) Semi-annually
  - (d) Annually

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|       |   |   |   |     |  |   |   |
|-------|---|---|---|-----|--|---|---|
| v.    | Bid-ask spread in foreign exchange market is the:   | 1   |   | ii. | Under the flexible exchange rate regime, what are the consequences of a current account deficit/surplus? | 6   |   |
|       | (a) Price of currency in foreign exchange market  |   |   | OR  | iii.   | What are Foreign Exchange Markets and their functions? How are these functions performed? Also explain the role of major participant's mortgage crisis?   | 6 |
|       | (b) Price at which a bank will buy a currency   |   |   |     |  |   |   |
|       | (c) Price a bank will pay for a currency  |   |   |     |  |   |   |
|       | (d) Difference between bid and ask quotes for a currency  |   |   |     |  |   |   |
| vi.   | It is very difficult to interpret news in foreign exchange markets because:   | 1   |   | Q.3 | i.   | Write a short note on LIBOR.  | 3 |
|       | (a) It is difficult to know whether the news has been obtained legally.   |   |   |     | ii.  | Explain the settlement of international bank transactions with the help of example diagrammatically.  | 7 |
|       | (b) It is difficult to know which news is relevant to future exchange rates.  |   |   | OR  | iii.   | Describe the different instruments through which the companies can raise funds from International Markets.  | 7 |
|       | (c) Most of the news is foreign.  |   |   |     |  |   |   |
|       | (d) Very little information is publicly available.  |   |   |     |  |   |   |
| vii.  | If purchasing power parity were to hold even in the short run, then:  | 1   |   | Q.4 | i.   | How can you calculate Bid-Ask Spread?   | 2 |
|       | (a) Real exchange rates should be stable over time  |   |   |     | ii.  | The following quotations are available –  | 8 |
|       | (b) Quoted nominal exchange rates should be stable over time  |   |   |     |  | Malaysian Bank : MYR 9.74 per Bahrain Dollar  |   |
|       | (c) Real exchange rates should tend to increase over time   |   |   |     |  | Singapore Bank : MYR 2.33 per Singapore Dollar  |   |
|       | (d) Real exchange rates should tend to decrease over time   |   |   |     |  | Bahrain Bank : SGD 4.20 per Bahrain Dollar  |   |
| viii. | Where a positive interest differential must be offset by an expected exchange rate fall of equal magnitude, this called:  | 1   |   |     |  | Assume you have SGD 1 million.  |   |
|       | (a) The interest parity condition   |   |   |     |  | (a) Is triangular arbitrage possible?   |   |
|       | (b) Real rate of international interest rates   |   |   | OR  |  | (b) What will be the arbitraging profit?  |   |
|       | (c) Purchasing power parity   |   |   |     |  | (a) The inflation rate in the UK is expected to be 4% p.a. and the inflation rate in India is expected to be 8% p.a. If the current spot rate is GBP/INR 92, what is the expected spot rate in two years? | 8 |
|       | (d) Perfect capital mobility  |   |   |     |  | (b) The following are the interest rates and spot rates of exchange:  |   |
| ix.   | One method by which a firm may protect itself against economic exposure is:   | 1   |   |     |  | Spot Rate : GBP/INR 92.22/33  |   |
|       | (a) Forward contract hedges   |   |   |     |  | Interest Rate in India: 10% - 10.25% p.a.   |   |
|       | (b) Futures market hedging  |   |   |     |  | Interest Rate in UK: 6% - 6.25% p.a.  |   |
|       | (c) Geographical diversification  |   |   |     |  | If the interest rate parity holds, what are the forward quotes?   |   |
|       | (d) Money market hedges   |   |   |     |  |   |   |
| x.    | The potential for an increase or decrease in the parent's net worth and reported net income caused by a change in exchange rates since the last consolidation of international operations is a reflection of: | 1   |   | Q.5 | i.   | Write a short note on: Interest Rate Parity Theory.   | 4 |
|       | (a) Translation exposure  |   |   |     | ii.  | How does Purchasing Power Parity theory work while determining exchange rates?  | 6 |
|       | (b) Strategic exposure  |   |   |     |  |   |   |
|       | (c) Exchange rate exposure  |   |   | OR  | iii.   | Explain the Asset Market Models of Exchange Rate Determination.   | 6 |
|       | (d) Economic exposure   |   |   |     |  |   |   |
| Q.2   | i.  | What are the motivating factors behind growth of International Finance? | 4 |     |  |   |   |

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**Marking Scheme**  
**MS5EF07 International Finance**

|     |       |  |                          |
|-----|-------|--|--------------------------|
| Q.1 | i.    | Which one of the following best describes subprime mortgage lending:<br>(b) Lending to people to buy houses who are at greater risk of being unable to meet the repayments   | <b>1</b>                 |
|     | ii.   | Under a dirty float regime:<br>(b) The exchange rate is unofficially controlled by the central bank.   | <b>1</b>                 |
|     | iii.  | Consider the following statements related to Asian Development bank:<br>I. The president has always been Japanese.<br>II. Turkey is a member of ADB.<br>III Iran is a member of ADB.<br>Which of the above statements are true?<br>(a) 1,2 | <b>1</b>                 |
|     | iv.   | Interest rate on floating rate Eurobonds is paid:<br>(c) Semi-annually   | <b>1</b>                 |
|     | v.    | Bid-ask spread in foreign exchange market is the:<br>(d) Difference between bid and ask quotes for a currency  | <b>1</b>                 |
|     | vi.   | It is very difficult to interpret news in foreign exchange markets because:<br>(b) It is difficult to know which news is relevant to future exchange rates.  | <b>1</b>                 |
|     | vii.  | If purchasing power parity were to hold even in the short run, then:<br>(a) Real exchange rates should be stable over time   | <b>1</b>                 |
|     | viii. | Where a positive interest differential must be offset by an expected exchange rate fall of equal magnitude, this called:<br>(a) The interest parity condition  | <b>1</b>                 |
|     | ix.   | One method by which a firm may protect itself against economic exposure is:<br>(c) Geographical diversification  | <b>1</b>                 |
|     | x.    | The potential for an increase or decrease in the parent's net worth and reported net income caused by a change in exchange rates since the last consolidation of international operations is a reflection of:<br>(a) Translation exposure  | <b>1</b>                 |
| Q.2 | i.    | Motivating factors behind growth of International Finance<br>Each carry 1 mark   | <b>4</b><br>(1 mark * 4) |

|     |                  |   |                                |
|-----|------------------|---|--------------------------------|
|     | ii.              | Consequences of a current account deficit/surplus<br>Each carry 1 mark  | <b>6</b><br>(1 mark * 6)       |
| OR  | iii.             | Foreign Exchange Markets and their functions<br>Functions performed<br>Role of major participant's mortgage crisis  | <b>6</b><br>2 marks<br>2 marks |
| Q.3 | i.               | LIBOR.  | <b>3</b>                       |
|     | ii.              | Diagram<br>Explanation  | <b>7</b><br>2 marks<br>5 marks |
| OR  | iii.             | Instruments for raising funds from International Markets.<br>Each carry 1 mark  | <b>7</b><br>(1 mark * 7)       |
| Q.4 | i.               | Bid-Ask Spread  | <b>2</b>                       |
|     | ii.              | (a) Is triangular arbitrage possible?<br>(b) What will be the arbitraging profit?   | <b>8</b><br>4 marks<br>4 marks |
| OR  | (a)              | The inflation rate in the UK is expected to be 4% p.a. and the inflation rate in India is expected to be 8% p.a. If the current spot rate is GBP/INR 92, what is the expected spot rate in two years?<br>4 marks  | <b>8</b>                       |
|     | (b)              | The following are the interest rates and spot rates of exchange:<br>Spot Rate : GBP/INR 92.22/33<br>Interest Rate in India: 10% - 10.25% p.a.<br>Interest Rate in UK: 6% - 6.25% p.a.<br>If the interest rate parity holds, what are the forward quotes?<br>4 marks | <b>8</b>                       |
| Q.5 | i.               | Interest Rate Parity Theory.  | <b>4</b>                       |
|     | ii.              | Purchasing Power Parity theory work   | <b>6</b>                       |
| OR  | iii.             | Asset Market Models of Exchange Rate Determination.   | <b>6</b>                       |
| Q.6 | Attempt any two: |   |                                |
|     | i.               | Distinguish between transaction exposure and translation exposure.<br>Each carry 1 mark   | <b>5</b><br>(1 mark * 5)       |
|     | ii.              | Firms manage their economic exposure?   | <b>5</b>                       |
|     | iii.             | Different ways to enter in new markets.   | <b>5</b>                       |

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