Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER – 03 • EXAMINATION – SUMMER 2017

Subject Code: 2830502 **Date: 11/05/2017**

Subject Name: International Finance

Time: 02.30 PM TO 05.30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q-1	a.	Answer the following MCQs		06
1.		India's foreign exchange rate system is?		
	A.	Free float	B. Managed float	
	C.	Fixed.	D. Fixed target of band	
2.		The acronym SWIFT stands for		
	A.	Safety Width In Financial Transactions.	B. Society for Worldwide International Financial Telecommunication	
	C.	Society for Worldwide Interbank Financial Telecommunication	D. Swift Worldwide Information for Financial Transaction.	
3.		If PPP holds		
	A.	The nominal exchange rate will not change.	B. The real exchange rate will not change.	
	C.	Both real and nominal exchange rates will not change.	D. Both real and nominal exchange will move together	
4.		Hedging with options is best recommended for		
	A.	Hedging receivables.	B. Hedging payables.	
	C.	Hedging contingency exposures.	D. Hedging foreign currency loans	
5.		A bank located usually in another country that provides service for another bank is		
	A.	Foreign bank	B. Central bank	
	C.	Correspondent bank	D. World bank	
6.		INCOTERMS are devised and published by		
	A.	International Chamber of Commerce	B. World Bank	
	C.	World Trade Organization	D. United Nations	

Q-1 b. Explain the following terms **04**

a. Price-specie-flow mechanism
b. Forward rate agreement
c. CIF
d. Bilateral Netting

Q-1 c. What is Translation exposure? **04**

Q-2 a. What is the meaning of International Finance? How it differs from domestic Finance? **07**

b. What is fixed and flexible exchange rate? How the external adjustment mechanism takes place in fixed and flexible rate? Explain **07**

OR

b. Generally, balance of current account and balance of capital account are equal in amount but opposite in direction, but how it has been possible for China for several years to keep both of them positive? Explain with the help of BOP identity component. 07

Q-3 a. Explain interest rate Parity. Discuss the implications of interest rate parity for exchange rate determination. 07

b. Why International Portfolio Investment is Popular? Explain the Risk Reduction through International Diversification. 07

OR

Q-3 a. Briefly explain various types of International banks 07

b. What is Transaction exposure? How forward contract and option can be used to mitigate transaction exposure? Explain with example 07

Q-4 a. Briefly define each of the major types of international bond market instruments, noting their distinguishing characteristics. 07

b. What are the objectives of ECGC? Discuss the role of ECGC in the promotion of exports. 07

OR

Q-4 a. Role of EXIM in the development of Foreign Trade 07

b. Explain different type of Letter of credit. 07

Q-5 a. On 18th July, an export customer seeks forward cover for Euro 100000 with option to him over the month of September, covering an export bill on Frankfurt with 30 days usance. 14

The interbank rates for US dollar were as follows.

Spot		USD 1 = Rs. 68.5200/ 68.5275
Spot	/July	500/600
	/August	1500/1600
	/September	2800/2900
	/October	4200/4300
	/November	6300/6400
	/December	8500/8600

Euro is quoted in the Singapore Market as under:

Spot	Eur 1 = USD 1.0600/1.0650
1 month	20/21
2 months	40/41
3 months	60/61
4 months	80/81
5 months	100/101
6 months	120/121

Transit period is 25 days. The bank requires an exchange margin of 0.10%

Calculate the rate to be quoted to the customers.

Q-5 a You plan to visit United states, in three months to attend an international business conference. You expect to incur the total cost of USD 5,000 for lodging, meals and transportation during your stay. As of today, the spot exchange rate is Rs. 67.73/USD and the three-month forward rate is Rs.71.12/USD. You can buy the three-month call option on USDs with the exercise rate of Rs.72.25/USD for the premium of Rs. 0.05 per USD. Assume that your expected future spot exchange rate is the same as the forward rate. The three-month interest rate is 9 percent per annum in the India and 7 percent per annum in United States. 14

a. Calculate your expected Rupees of buying USD 5,000 if you choose to hedge via call option on USD.

b. Calculate the future Rupees cost of meeting this USD obligation if you decide to hedge using a forward contract.
c. What will be the cost in term of Rupees, if money market hedge is used?

Compare and comment on your answer