Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 3 – EXAMINATION – SUMMER 2019

Subject Code:3539225 **Date:13/05/2019**

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. No.		Question Text and Description	Marks
Q.1		Definitions / terms / explanations / short questions based on concepts of theory/practical (a) Explain the term Spot Rate. (b) State the different types of Options. (c) Differentiate between devaluation and depreciation of currency. (d) What are 'Masala' Bonds (e) Expand the terms LIBOR and ADR. (f) Define the term Forfaiting. (g) State any 4 INCOTERMS.	**14**
Q.2	**(a)**	Discuss the significance of International Finance in the current era of Globalisation.	**07**
	(b)	What does Capital Account in the Balance of Payment indicate? What are the reasons behind surplus and deficit in capital accounts?	**07**
		OR	
	(b)	Explain the main causes responsible for disequilibrium in the Balance of Payments.	**07**
Q.3	**(a)**	Discuss the factors responsible for fluctuations in the exchange rates.	**07**
	(b)	i) current spot rate for the U.S. dollar is Rs. 72. The expected inflation rate is 6% in India and 2% in the U.S. What will be the expected spot rate of dollar after one year?	**03**
		ii) Explain the mechanism behind the working of Relative Purchasing Power Parity theory.	**04**
		OR	
Q.3	**(a)**	How does Export and Import bank of India help the exporters?	**07**
	(b)	A diamond merchant from Surat plans to import 10,000 pieces of diamonds in three months. The prices could be \$320, \$340, or \$360 a piece. The merchant is thinking of buying a 3 month call option on 10,000 pieces of diamonds. The option will cost \$4 per piece.	
		i) Suggest when should the merchant exercise his call option?	**01**
		ii)Calculate the amount of payoff on exercising the option. and the total cost to the merchant under different diamond prices?	**06**

Q.4	**(a)**	Explain the Techniques available in order to reduce the risk arising due to Transaction Exposure.	**07**
	(b)	Discuss the various methods of issuing equity in the International market.	**07**

OR

Q.4	**(a)**	Discuss the issues and the remedies available to MNC's regarding surplus cash flows.	**07**
	(b)	Discuss the importance of Letter of Credit as a tool for international finance and discuss any two types of LOC with examples.	**07**

Q.5 **CASE STUDY:**

Matrix pharma is a mid – sized pharmaceutical company that focuses mainly on branded formulations with a significant proportion of its sales coming from international operations in several countries. Given its healthy growth in the last five years, partly fueled by an acquisition in the UK, the company has in recent years stepped up its R&D activity.

It's CEO Mr. Prateek Vyas recently attended a seminar for CEO's at a prestigious UK university in which there was a module on corporate risk management. After attending the seminar, Prateek Vyas was convinced that Matrix Pharma, given its increasing internationalization and growing thrust on R&D, had to gradually institute a comprehensive risk management programme. In view of the growing importance of risk management in international finance answer the following questions.

	(a)	What are the principle risks faced by a business firm?	**07**
	(b)	What is the principle of hedging? Explain the advantages of hedging.	**07**

OR

Q.5	(a)	Explain the various participants involved in international transactions.	**07**
	(b)	How does a firm hedge with a forward contract? Explain with example.	**07**

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