Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER (3) – EXAMINATION – WINTER 2015

Subject Code: 2830502 **Date: 05/12/ 2015**

Subject Name: International Finance

Time: 10.30 AM TO 01.30 PM **Total Marks: 70**

Instructions:

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

Q1(a) Multiple Choice Questions [6]

1. The agency costs of an MNC are likely to be lower if it:
   A) scatters its subsidiaries across many foreign countries.
   B) increases its volume of international business.
   C) uses a centralized management style.
   D) scatters its subsidiaries across many foreign countries AND increases its volume of international business.
2. A forward contract can be used to lock in the _______ of a specified currency for a future point in time.
   A) purchase price
   B) sale price
   C) purchase price or sale price
   D) none of these
3. An increase in U.S. interest rates relative to German interest rates would likely _______ the U.S. demand for euros and _______ the supply of euros for sale.
   A) reduce; increase
   B) increase; reduce
   C) reduce; reduce
   D) increase; increase
4. The incoterm providing or least responsibility to seller is
   A) EXW
   B) DDP
   C) FOB
   D) CIF
5. A back to back letter of credit
   A) is always an inland letter of credit
   B) is new of letter of credit issued on the strength of the letter of credit which is not transferable
   C) can be issued only when the original letter of credit is transferable
   D) can also be transferred
6. A 'credit' balance of payment indicates
   A) accumulation of bank balances abroad
   B) foreign direct investment received into the country
   C) earning of foreign exchange by the country
   D) earning of foreign exchange or incurring of liability abroad or decrease in assets abroad

Q1(b) Explain the terms [4]

A) CIF
B) Money market hedge
C) ADR
D) FDI

Q1(c) Explain in brief the major internal hedging techniques [4]

Q2(a) Discuss major types of International Banking offices in detail. [7]

Q2(b) What is Letter of Credit? Explain its mechanism with diagram. [7]

OR

Q2(a) Explain the growth and history of Exchange rate system [7]

Q2(b) Explain the term "FDI" and discuss its advantages and disadvantages. Also narrate the importance of political risk analysis in FDI [7]

Q3(a) What is Exposure? Explain the three different types of Exposure in International Business [7]

Q3(b) Why International Portfolio Investment is popular? Explain the risk reduction through international diversification. [7]

OR

Q3(a) What do you mean by Hedge? Discuss Forward Market Hedge and Money Market Hedge for hedging transaction exposure. [7]

Q3(b) Discuss the different ways political events in a host country may affect local operations of a MNC [7]

Q4(a) Describe the balance of payment identity and discuss its implications under fixed and flexible exchange rate regime. [7]

Q4(b) Write a short note on Export Import Bank of India. [7]

OR

Q4(a) Write a note on development & services provided by ECGC [7]

Q4(b) Explain the difference between Domestic & International Finance. [7]

Q5 Sandip, an importer booked a forward contract with the bank on 10th April for USD 20,000 due on 10th June at INR. 49.4000. The bank covered its position in the market at INR. 49.2800

The exchange Rates for dollar in the interbank market on 10th June and 20th June were:

	10th June	20th June
Spot	1 USD = INR. 48.8000/8200	48.6800/7200
Spot/ June	48.9200/9500	48.8000/8500
July	49.0500/0900	48.9300/9900
August	49.3000/3500	49.1800/2500
September	49.6000/6600	49.4800/5600

Exchange Margin 0.10%

Interest on outlay of funds 12%

How will the bank react if Sandip requests on 20th June:

a. To cancel the contract, [6]
b. To Execute the contract [4]
c. To extend the contract due date to fall on 10th August. [4]

OR

Q5 Marico Marines Ltd. Has to pay USD 5,00,000 at the end of six months from today. It collected the following information from the market to take the decision:

a. Spot rate of USD INR. 44.80
b. Six month forward rate of USD INR. 44.95
c. Interest Rates:

Rupee	7.15/7.25
Dollar	6.30/6.40

d. Six months call option strike price INR. 44.98, premium INR. 0.05
e. Forecast spot rate for 6 months:

INR./US$	Probability
INR. 44.90	60%
INR. 45.00	30%
INR. 45.10	10%

On the basis of the above data determine which of the following strategy can be used by the company and also calculate the cost of each:

i. Use forward [4]
ii. Use money market hedge [4]
iii. Use options [4]
iv. Remain unchanged [2]

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