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Name..............................

Reg. No..............................

THIRD SEMESTER M.B.A. DEGREE EXAMINATION, DECEMBER 2014

BUS 3E1 B03/BUS 3E F01—INTERNATIONAL FINANCE

(2013 Admissions)

Time : Three Hours Maximum : 36 Weightage

Provide the working notes and assumptions wherever necessary.

Part A

Answer **all** *the questions.*
Each question carries 1 *weightage.*

1. Which are the items included under the current account of Balance of payments ?
2. Distinguish between fixed and floating exchange rate system.
3. What are the special schemes of landing of IMF ?
4. Distinguish between spot and forward transactions in forex market.
5. Give the meaning of call option and put option.
6. State the factors influencing forward rates.

(6 × 1 = 6 weightage)

Part B

Answer any **six** *questions.*
Each question carries 3 *weightage.*

7. Explain how the exchange rate is determine and under different versions of purchasing power parity Theory.
8. Discuss the alternative exchange Regimes.
9. Explain the motives for internationalization of financial transactions.
10. Define foreign exchange market. Discuss the role of central bank and commercial banks in the forex market.
11. Explain with suitable examples hedging receivables and payables denominated in foreign currency in forward market.
12. Briefly explain the various internal hedging techniques.
13. Illustrate the Balance of Payments statement using hypothetical figures and show the balance in current A/C, capital account and overall Balance.

Turn over

14. If the rate of exchange is :

    US \$ 2.0000 – 2.0100/£ in Newyork

    US \$ 1.9800 – 1.9810/£ in London.

    Explain how the arbitragears will gain.

(6 × 3 = 18 weightage)

Part C

Answer any **two** *questions.*
Each question carries 6 weightage.

15. Describe the special lending schemes of IMF.
16. Assume the following information :

Spot rate of Mexican Peso	=	\$ 0.100
180 day forward rate of Mexican Peso	=	\$ 0.098
180 day Mexican interest rate	=	6%
180 day US interest rate	=	5%

    Given this information, is correct interest arbitrage is worthwhile for Mexican interest who have pesos to invest ? Explain your answer.

17. An Indian exporter has to get US \$ 1,00,000 as export proceeds after 90 days. Suppose the spot rate is Rs. 60/US\$ and the 90 days forward is Rs. 55/US\$. The interest rate on borrowing in India and the U.S is 6% p.a. while interest rate on deposit is 5 percent p.a.

    Describe how he can implement money market hedge for handling transaction exposure.

(2 × 6 = 12 weightage)