

# Online Examinations (Even Sem/Part-I/Part-II Examinations 2020 - 2021)

Course Name - –International Finance

Course Code - FM403

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Answer all the questions. Each question carry one mark.

9. 1. In a flexible exchange rate regime, a current account deficit is likely to be corrected by analysing of

*Mark only one oval.*

- drawing down on forex reserves
- depreciation of home currency
- appreciation of home currency
- higher inflation.

10. 2.If the interest rate on dollar deposits is 10 percent, and the dollar is expected to appreciate by 7 percent over the coming year,evaluate the expected return on dollar deposits in terms of the foreign currency

*Mark only one oval.*

- 3 percent.
- 10 percent
- 15 percent
- 24 percent

11. 3. Situation in which company replaces existing assets with new assets is classified as

*Mark only one oval.*

- Replacement projects
- New projects
- Existing projects
- Internal projects

12. 4. Situation in which new business reduces an existing business of firm is classified as

*Mark only one oval.*

- Non-cannibalization effect
- Cannibalization effect
- External effect
- Internal effect

13. 5. In cash flow estimation, depreciation is considered as

*Mark only one oval.*

- Cash charge
- Noncash charge
- Cash flow discounts
- Net salvage discount

14. 6. Assume the parent of a UK-based MNC plans to completely finance the establishment of its US subsidiary with existing funds from retained earnings in UK operations. According to the text, the discount rate used in the capital budgeting analysis on this project should be most affected by:

*Mark only one oval.*

- The cost of borrowing funds in the U.K.
- The cost of borrowing funds in the U.S.
- The parent's cost of capital.
- None of the above

15. 7. Other things being equal, firms from a particular home country will engage in more international acquisitions if they expect foreign currencies to \_\_\_\_\_ against their home currency, and if their cost of capital is relatively \_\_\_\_\_.

*Mark only one oval.*

- Appreciate; low
- Appreciate; high
- Depreciate; high
- None of the above

16. 8. A French-based MNC has just established a subsidiary in Algeria. Shortly after the plant was built, the MNC determines that its exchange rate forecasts, which had previously indicated a slight appreciation in the Algerian dinar were probably false. Instead of a slight appreciation, the MNC now expects that the dinar will depreciate substantially due to political turmoil in Algeria. This new development would likely cause the MNC to \_\_\_\_\_ its estimate of the previously computed net present value

*Mark only one oval.*

- Lower
- Increase
- Decrease
- None of the above

17. 9. When a foreign subsidiary is not wholly owned by the parent and a foreign project is partially financed with retained earnings of the parent and of the subsidiary, then

*Mark only one oval.*

- The parent's perspective should be used to evaluate a foreign project.
- The subsidiary's perspective should be used to evaluate a foreign project.
- The foreign project should enhance the value of both the parent and the subsidiary.
- None of the above

18. 10. An international project's NPV is \_\_\_\_\_ related to the size of the initial investment and \_\_\_\_\_ related to the project's required rate of return.

*Mark only one oval.*

- Positively; positively
- Positive; negatively
- Negatively; positively
- Negatively; negatively

19. 11. If an MNC sells a product in a foreign country and imports partially manufactured components needed for production to that country from the U.S., then the local economy's inflation will have:

*Mark only one oval.*

- A more pronounced impact on revenues than on costs.
- A less pronounced impact on revenues than on costs
- The same impact on revenues as on costs.
- None of the above

20. 12. With regard to hedging translation exposure, translation losses \_\_\_\_\_; and gains on forward contracts used to hedge translation exposure \_\_\_\_\_.

*Mark only one oval.*

- Are not tax deductible; are taxed
- Are tax deductible; are taxed
- Are not tax deductible; are not taxed
- None of the above

21. 13. If portable disk players made in China are imported into the United States, the Chinese manufacturer is paid with

*Mark only one oval.*

- International monetary credits
- Dollars.
- Yuan, the Chinese currency.
- None of the above



22. 14. By definition, currency appreciation occurs when

*Mark only one oval.*

- The value of all currencies falls relative to gold.
- The value of all currencies rises relative to gold.
- The value of one currency rises relative to another currency.
- The value of one currency falls relative to another currency.

23. 15. Which of the methods below may be viewed as most effective in protecting against economic exposure?

*Mark only one oval.*

- Money market hedges
- Futures market hedging
- Forward contract hedges
- Geographical diversification

24. 16. 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

*Mark only one oval.*

- Translation exposure
- Exchange rate exposure
- Economic exposure
- None of the above

25. 17. A forward currency transaction:

*Mark only one oval.*

- Is always at a premium over the spot rate
- Means that delivery and payment must be made within one business day (USA/Canada) or two business days after the transaction date
- Calls for exchange in the future of currencies at an agreed rate of exchange
- None of the above

26. 18. The date of settlement for a foreign exchange transaction is referred to as:

*Mark only one oval.*

- Clearing date
- Value date
- Transaction date
- All of the above

27. 19. If one anticipates that the pound sterling is going to appreciate against the US dollar, one might speculate by \_\_\_\_\_ pound call options or \_\_\_\_\_ pound put options

*Mark only one oval.*

- Buying; buying
- Buying; selling
- Selling; selling
- All of the above

28. 20. Counterparty risk is:

*Mark only one oval.*

- The risk of loss when exchange rates change during the period of a financial contract
- Based on the notional amount of the contract
- The risk of loss if the other party to a financial contract fails to honor its obligation
- Present only with exchange-traded options

29. 21. Which of the following theories identifies specialization as a reason for international business?

*Mark only one oval.*

- Theory of comparative advantage
- Imperfect markets theory
- Product cycle theory
- None of the above

30. 22. Which of the following theories suggests that firms seek to penetrate new markets over time? \_\_\_\_\_

*Mark only one oval.*

- Theory of comparative advantage
- Imperfect markets theory
- Product cycle theory
- None of the above

31. 23. A product cycle is the process by which a firm provides a specialized sales or service strategy, support assistance, and possibly an initial investment in the franchise in exchange for

*Mark only one oval.*

- Product fees
- Periodic fees
- Capital fees
- None of the above

32. 24. \_\_\_\_\_ is the process by which a firm provides its technology (copyrights, patents, trademarks, or trade names) in exchange for fees or some other specified benefits.

*Mark only one oval.*

- Financing
- Licensing
- Capital introduction
- None of the above

33. 25. The term privatization is typically used to describe:

*Mark only one oval.*

- Firms that are purchased by their managers
- Firms that are purchased by the government
- Firms that are bought out by other firms.
- Government operations that are purchased by corporations and other investors.

34. 26. Assume a UK firm uses a forward contract to hedge all of its translation exposure. Also assume that the firm underestimated what its foreign earnings would be. Assume that the foreign currency depreciated over the year. The firm would generate a translation \_\_\_\_\_, which would be \_\_\_\_\_ than the gain generated by the forward contract.

*Mark only one oval.*

- Loss; smaller
- Loss; larger
- Gain; larger
- None of the above

35. 27. An effective way for an MNC to assess its economic exposure is to look at the firm's:

*Mark only one oval.*

- Income statement
- Retained earnings
- Liquidity
- Stockholder's liquidity

36. 28. European currency options can be exercised \_\_\_\_\_; American currency options can be exercised \_\_\_\_\_.

*Mark only one oval.*

- Any time up to the expiration date; any time up to the expiration date
- Any time up to the expiration date; only on the expiration date
- Only on the expiration date; any time up to the expiration date
- Only on the expiration date; only on the expiration date

37. 29. As opposed to transaction exposure, managing economic exposure involves developing a \_\_\_\_\_ solution.

*Mark only one oval.*

- Short-term
- Long-term
- Immediate
- None of the above

38. 30. A UK corporation has purchased currency call options to hedge a 70,000 dollar payable. The premium is £0.015 and the exercise price of the option is £0.54. If the spot rate at the time of maturity is £0.59, what is the total amount paid by the corporation if it acts rationally?

*Mark only one oval.*

- £36,750.
- £1,050
- £37,800.
- £38,850

39. 31. Foreign currency forward market is

*Mark only one oval.*

- An over the counter unorganized market
- Organized market without trading
- Organized listed market
- All of the above

40. 32. The exchange rate is the

*Mark only one oval.*

- Total yearly amount of money changed from one country's currency to another country's currency
- Total monetary value of exports minus imports
- Amount of country's currency which can be exchanged for one ounce of gold
- Price of one country's currency in terms of another country's currency

41. 33. An arbitrageur in foreign exchange is a person who

*Mark only one oval.*

- Earns illegal profit by manipulating foreign exchange
- Causes differences in exchange rates in different geographic markets
- Simultaneously buys large amounts of a currency in one market and sells it in another market
- None of the above

42. 34. According to the Purchasing Power Parity (PPP) theory,

*Mark only one oval.*

- Exchange rates between two national currencies will adjust daily to reflect price level differences in the two countries
- In the long run, inflation rates in different countries will equalize around the world
- In the long run, the exchange rates between two national currencies will reflect price-level differences in the two countries
- None of the above

43. 35. The current system of international finance is a

*Mark only one oval.*

- Gold standard
- Floating exchange rate system
- Managed float exchange rate system
- None of the above

44. 36A simultaneous purchase and sale of foreign exchange for two different dates is called

*Mark only one oval.*

- Currency devalue
- Currency swap
- Currency valuation
- None of the above

45. 37. In comparing exporting to direct foreign investment (FDI), an exporting operation will likely incur \_\_\_\_ fixed production costs and \_\_\_\_ transportation costs than DFI.

*Mark only one oval.*

- Higher; higher
- Higher; lower
- Lower; lower
- Lower; higher



46. 38. \_\_\_\_ are most commonly classified as a direct foreign investment.

*Mark only one oval.*

- Foreign acquisitions
- Purchases of international stocks
- Licensing agreements
- Exporting transactions

47. 39. Which of the following is not mentioned in the text as an additional risk resulting from international business?

*Mark only one oval.*

- Exchange rate fluctuations
- Political risk.
- Interest rate risk.
- None of the above

48. 40. Which of the following is true of options?

*Mark only one oval.*

- The writer decides whether the option will be exercised.
- The writer pays the buyer the option premium
- The buyer decides if the option will be exercised.
- None of the above

49. 41. If countries are highly influential upon each other, the correlations of their economic growth levels would likely be \_\_\_\_\_. A firm would benefit \_\_\_\_\_ by diversifying sales among these countries relative to another set of countries that were not influential upon each other.

*Mark only one oval.*

- High and positive; more
- Close to zero; more
- High and positive; less
- None of the above

50. 42. Assume that a UK investor invests in a US CD offering a six-month interest rate of 5%. Over this six-month period, the dollar depreciates by 9%. The effective yield on the US CD for the UK investor is:

*Mark only one oval.*

- 14.54 %.
- 14.00%.
- 3.54%.
- +3.54%.

51. 43. In a quote exchange rate, the currency that is to be purchase with another currency is called the

*Mark only one oval.*

- Liquid currency
- Foreign Currency
- Local Currency
- Base Currencyle

52. 44. Which of the following is NOT a criticism of a flexible exchange rate system?

*Mark only one oval.*

- Flexible exchange rates tend to be variable and therefore cause more uncertainty
- Flexible exchange rate systems require discipline on the part of central banks that may not be forthcoming
- Under flexible exchange rates, trading countries tend to rely more heavily upon tariffs and other restrictions
- The flexible exchange rate system reduces the power of fiscal polic

53. 45. Arbitrageurs in foreign exchange markets:

*Mark only one oval.*

- Attempt to make profits by outguessing the market
- Make their profits through the spread between bid and offer rates of exchange
- Take advantage of the small inconsistencies that develop between markets
- Need foreign exchange in order to buy foreign goods

54. 46. A/An \_\_\_\_\_ is an agreement between a buyer and seller that a fixed amount of one currency will be delivered at a specified rate for some other currency

*Mark only one oval.*

- Euro dollar transaction
- Import / Export Exchange
- Foreign Exchange Transaction
- None of the above

55. 47. Which of the following is not a way in which create agency problems and can be reduced through corporate control?

*Mark only one oval.*

- Executive compensation
- Threat of hostile takeover
- Acquisition of a foreign subsidiary.
- Monitoring by large shareholders

56. 48. Rule which states that similar set of goods and services produced in various countries should have equal price is classified as

*Mark only one oval.*

- Law of similar mortgage rate
- Law of one type manufacturing
- Law of similar labor rules
- Law of one price

57. 49. In equilibrium position, spread between foreign and domestic rate of interest must be equal to spread of

*Mark only one oval.*

- Domestic rates
- Forward and spot exchange rates
- Forward rate
- Spot rates

58. 50. Theory which considers change in exchange rate with fluctuations in inflation rates is classified as

*Mark only one oval.*

- Liquidated power parity
- Purchasing power parity
- Selling power parity
- Volatile power parity

59. 51. Forward exchange rates

*Mark only one oval.*

- Involve the immediate exchange of bank deposits.
- Involve the exchange of bank deposits at some specified future date.
- Involve the immediate exchange of imports and exports.
- None of the above

60. 52. The commonly accepted goal of the MNC is to

*Mark only one oval.*

- Maximize short-term earnings.
- Maximize shareholder wealth
- Minimize risk.
- None of the above

61. 53. With regard to understand the corporate goals, an MNC is mostly concerned with maximizing \_\_\_\_, and a purely domestic firm is mostly concerned with maximizing \_\_\_\_.

*Mark only one oval.*

- Shareholder wealth; short-term earnings
- Shareholder wealth; shareholder wealth
- Short term earnings, sales volume
- Short-term earnings; shareholder wealth

62. 54. For the MNC, agency costs are typically:

*Mark only one oval.*

- Non-existent
- Larger than agency costs of a small purely domestic firm.
- Smaller than agency costs of a small purely domestic firm.
- The same as agency costs of a small purely domestic firm.

63. 55. In real world, all factors of production are perfectly

*Mark only one oval.*

- Mobile
- Immobile
- Somewhat mobile
- None of the above

64. 56. We multiply foreign revenue with rate with respect to that country is

*Mark only one oval.*

- Forward rate
- Spot rate
- Cash Flows
- Portfolio Investment

65. 57. Agency problem is between

*Mark only one oval.*

- Manager and Employees
- Manager and Government
- Manager and Shareholders
- Parent to Subsidiary

66. 58. Greater the exposure bigger the (K4)

*Mark only one oval.*

- Investment
- Spot rate
- Forward rate
- Risk

67. 59. If the dollar depreciates relative to the Swiss franc

*Mark only one oval.*

- Swiss chocolate will become more expensive in the United States
- American computers will become less expensive in Switzerland
- Swiss chocolate will become cheaper in the United States
- Both Swiss chocolate will become more expensive in the United States & American computers will become less expensive in Switzerland

68. 60. Evidence from the United States during the period 1973-2016 indicates the correspondence between nominal interest rates and exchange rate movements is

*Mark only one oval.*

- Much closer than that between real interest rates and exchange rate movements
- Not nearly as close as that between government spending and exchange rate movements
- Not nearly as close as that between government deficits and exchange rate movements
- Not nearly as close as that between real interest rates and exchange rate movements

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