

Online Assessment (Even Sem/Part-I/Part-II Examinations 2019 - 2020)

Course Name - International Finance

Course Code - FM403

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Answer all the questions. Each question carry one mark.

9. 1. In the foreign exchange market, the _____ of one country is traded for the _____ of another country

Mark only one oval.

Currency; currency

Currency; financial instruments

Currency; goods

Goods; goods

10. 2. Given a home country and a foreign country, purchasing power parity suggests that

Mark only one oval.

- The home currency will appreciate if the current home inflation rate exceeds the current foreign inflation rate
- The home currency will depreciate if the current home interest rate exceeds the current foreign interest rate
- The home currency will depreciate if the current home inflation rate exceeds the current foreign inflation rate
- The home currency will depreciate if the current home inflation rate exceeds the current foreign interest rate

11. 3. Interest Rate Parity (IRP) implies that

Mark only one oval.

- Interest rates should change by an equal amount but in the opposite direction to the difference in inflation rates between two countries
- The difference in interest rates in different currencies for securities of similar risk and maturity should be consistent with the forward rate discount or premium for the foreign currency
- The interest rates between two countries start in equilibrium, any change in the differential rate of inflation between the two countries tends to be offset over the long-term by an equal but opposite change in the spot exchange rate
- In the long run real interest rate between two countries will be different

12. 4. Hedging is used by companies to

Mark only one oval.

- Decrease the variability of tax paid
- Decrease the variability of expected cash flows
- Increase the variability of expected cash flows
- None of these

13. 5. Which of the following is true of foreign exchange markets?

Mark only one oval.

- The futures market is mainly used by hedgers while the forward market is mainly used for speculating
- The futures market is mainly used by speculators while the forward market is mainly used for hedging
- The futures market and the forward market are mainly used for speculating
- None of these

14. 6. Which of the following is not an interest rate derivative used for interest rate management?

Mark only one oval.

- Swap
- Cap
- Floor
- All of these

15. 7. When an enterprise has an unhedged receivable or payable denominated in a foreign currency and settlement of the obligation has not yet taken place, that firm is said to have

Mark only one oval.

- Tax exposure
- Infinite exposure
- Transaction exposure
- None of these

16. 8. The impact of Foreign exchange rate on firm is called as

Mark only one oval.

- Operating Exposure
- Transaction exposure
- Translation exposure
- All of these

17. 9. Interest rate swaps are usually possible because international financial markets in different countries are

Mark only one oval.

- Efficient
- Perfect
- Imperfect
- None of these

18. 10. If the U.S. dollar appreciates relative to the British pound

Mark only one oval.

- It will take fewer dollars to purchase a pound
- It will take more dollars to purchase a pound
- It is called a weakening of the dollar
- All of these

19. 11. The Purchasing Power Parity (PPP) theory is a good predictor of

Mark only one oval.

- The long-run tendencies between changes in the price level and the exchange rate of two countries
- Interest rate differentials between two countries when there are strong barriers preventing trade between the two countries
- Either The long-run tendencies between changes in the price level and the exchange rate of two countries or Interest rate differentials between two countries when there are strong barriers preventing trade between the two countries
- None of these

20. 12. A floating exchange rate

Mark only one oval.

- Is determined by the national governments involved
- Remains extremely stable over long periods of time
- Is determined by the actions of central banks
- Is allowed to vary according to market forces

21. 13. The Bretton Woods accord

Mark only one oval.

- Of 1879 created the gold standard as the basis of international finance
- Of 1914 formulated a new international monetary system after the collapse of the gold standard
- Of 1944 formulated a new international monetary system after the collapse of the gold standard
- None of these

22. 14. Ask quote is for

Mark only one oval.

- Seller
- Buyer
- Hedger
- None of these

23. 15. In 1944 international accord is recognized as

Mark only one oval.

- Breton Wood Agreement
- Exchange Agreement
- Fisher Effect
- None of these

24. 16. An economist will define the exchange rate between two currencies as the

Mark only one oval.

- Amount of one currency that must be paid in order to obtain one unit of another currency
- Difference between total exports and total imports within a country
- Price at which the sales and purchases of foreign goods takes place
- All of these

25. 17. It is very difficult to interpret news in foreign exchange markets because

Mark only one oval.

- Very little information is publicly available
- Most of the news is foreign
- It is difficult to know which news is relevant to future exchange rates
- All of these

26. 18. Which of the following may be participants in the foreign exchange markets?

Mark only one oval.

- Bank and non-bank foreign exchange dealers
- Central bank and treasuries
- Speculator and Arbitrageurs
- All of these

27. 19. Impact of 9/11 is

Mark only one oval.

- Political Instability
- Terrorist Attack
- More foreign investment
- Economic Instability

28. 20. One of generally prevalent aspects conflicting with recognition of ambition of an MNC is existence of

Mark only one oval.

- Agency problem
- Licensing
- Corporate governance
- None of these

29. 21. Greater the exposure bigger the

Mark only one oval.

- Investment
- Spot rate
- Forward rate
- Risk

30. 22. A recent study by McKinsey & Co. found that investors assign a higher value to firms that exhibit ____ corporate governance standards and are likely to ____ ethical constraints

Mark only one oval.

- High; not obey
- High; obey
- Low; not obey
- None of these

31. 23. Which of the following theories identifies the non-transferability of resources as a reason for international business?

Mark only one oval.

- Theory of comparative advantage
- Imperfect markets theory
- Product life cycle
- None of these

32. 24. Due to the risks involved in international business, firms should

Mark only one oval.

- Only consider international business in major countries
- Maintain international business to no more than 20% of total business
- Maintain international business to no more than 35% of total business.
- None of these

33. 25. The agency costs of an MNC are likely to be lower if it

Mark only one oval.

- Scatters its subsidiaries across many foreign countries
- Increases its volume of international business
- Uses a centralized management style
- None of these

34. 26. Which of the following is not a major event that increased international business opportunities in Europe?

Mark only one oval.

- The Single European Act
- The removal of the Berlin Wall.
- The inception of the euro
- The reduction in the number of countries participating in the European Union

35. 27. Which of the following is an example of direct foreign investment?

Mark only one oval.

- Exporting to a country
- Establishing licensing arrangements in a country
- Purchasing existing companies in a country
- Investing directly (without brokers) in foreign stocks

36. 28. The main provision of the North American Free Trade Agreement (NAFTA) was that

Mark only one oval.

- The Mexican peso's value be tied to the Canadian dollar
- Mexico be allowed to privatize its business
- Mexico must impose a minimum wage that is similar to the minimum wage in the U.S.
- All of these

37. 29. Licensing obliges a firm to provide ____, while franchising obligates a firm to provide ____

Mark only one oval.

- A specialized sales or service strategy; its technology
- Its technology; a specialized sales or service strategy
- Its technology; its technology
- None of these

38. 30. Inflation rate in United States is added into real rate of interest to calculate

Mark only one oval.

- Quoted interest rate in United States
- Nominal interest rate in United States
- Interest rate in United States
- Discount rate of country

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