



BRAINWARE UNIVERSITY

Course – MBA

Multinational Financial Management (FM402)

(Semester – 4)

Time allotted: 3 Hours

Full Marks : 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group –A

(Multiple Choice Type Question)

10 x 1 = 10

1. *Choose the correct alternative from the following*

(i) The forward exchange rate

- | | |
|---|---|
| a. is the rate today for exchanging one currency for another for immediate delivery | b. is the rate today for exchanging one currency for another at a specific future date |
| c. is the rate today for exchanging one currency for another at a specific location on a specific future date | d. is the rate today for exchanging one currency for another at a specific location for immediate delivery. |

(ii) The two legs of a large foreign exchange deal are settled

- | | |
|---|--|
| a. simultaneously across the counter | b. simultaneously at different locations |
| c. at different locations in different time zones | d. none of these. |

(iii) The price of a currency option is also called the option

- | | |
|-------------|---------------|
| a. discount | b. premium |
| c. return | d. face value |

(iv) International trade is based on the principle of

- | | |
|------------------------------|----------------------------|
| a. law of diminishing return | b. law of comparative cost |
| c. PPP theory | d. None of these |

- (v) The world's four major trading currencies are all free to float against each other. They include all the following except.
- | | |
|----------------------|---------------------|
| a. The British Pound | b. The Japanese Yen |
| c. The Spanish Peso | d. The US Dollar |
- (vi) Global bond market consists of all bonds sold by issued companies, governments, or other firms
- | | |
|-------------------------------|--------------------------------|
| a. Within their own countries | b. Outside their own countries |
| c. to London banks | d. to developing nations only |
- (vii) Largest number of buyers and sellers, greater the
- | | |
|--------------|-----------------|
| a. liquidity | b. Speculation |
| c. Hedging | d. Forward rate |
- (viii) If purchasing power parity were to hold even in the short run, then:
- | | |
|--|---|
| a. real exchange rates should be stable over time; | b. real exchange rates should tend to decrease over time; |
| c. quoted nominal exchange rates should be stable over time. | d. real exchange rates should tend to increase over time; |
- (ix) The date of settlement for a foreign exchange transaction is referred to as:
- | | |
|------------------|---------------|
| a. Clearing date | b. Swap date |
| c. Maturity date | d. Value date |
- (x) Not a profit maximizing business is
- | | |
|--|--|
| a. International Monetary Fund | b. International bank for Reconstruction and Development |
| c. International Financial Corporation | d. World Trade Organisation |

Group – B

(Short Answer Type Questions)

3 x 5 = 15

Answer any *three* from the following

- | | |
|--|-----|
| 2. What do you mean by interest rate parity? | [5] |
| 3. State the techniques of exchange rate forecasting. | [5] |
| 4. State the meaning and advantages of Netting. | [5] |
| 5. What do you mean by cross rate? Explain with example. | [5] |
| 6. Differentiate between functioning of IMF and IBRD. | [5] |

Group – C

(Long Answer Type Questions)

3 x 15 = 45

Answer any *three* from the following

7. (a) A company operating in Japan has today affected sales to an Indian company, the payment being due 3 months from the date of invoice. The invoice amount is 108 lakhs yen. At today's spot rate, it is equivalent to Rs. 30 lakhs. It is anticipated that the exchange rate will decline by 10% over the 3 months period and in order to protect the yen payments, the importer proposes to take appropriate action in the foreign exchange market. The 3 months forward rate is presently quoted as 3.3 yen per rupee. You are required to calculate the expected loss and to show how it can be hedged by a forward contract. [10]
- (b) What do you understand by Arbitrage? Discuss with example two point and three point arbitrage. [5]
8. (a) "Operations in foreign exchange market are exposed to a number of risks." -Discuss. [10]
- (b) The price of a bond just before a year of maturity is \$ 5,000. Its redemption value is \$ 5,250 at the end of the said period. Interest is \$ 350 p.a. The Dollar appreciates by 2% during the said period. Calculate the rate of return. [5]
9. (a) Discuss the difference between translation exposure, transaction exposure and economic exposure. [8]
- (b) Show that countries with higher rate of inflation should bear higher interest rates than countries with lower rate of inflation. [7]
10. (a) Discuss with example about various external hedging strategies, i.e money market hedge, option market hedge and future market hedge to manage transaction exposure [15]
11. Write short notes on any three of the following: [5x3]=15
- (a) IMF
- (b) EMU
- (c) BOT
- (d) Preferential trade agreement
- (e) Export subsidy