BRAINWARE UNIVERSITY

Term End Examination 2018 - 19

Program– Bachelor of Business Administration

Course Name – International Finance

Course Code – BBA503F

(Semester – 5)

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) Global bond market consists of all bonds sold by issued company or Govt.

a. Within their own country b. Outside their own country
c. To developing nations only d. None of the above

(ii) More instability in currency is known as

a. Country Risk b. Financial Risk
c. Currency Risk d. Asset Risk

(iii) Foreign Bonds issued in Japan is known as

a. Yankee bonds b. Bulldog Bonds
c. Samurai bonds d. Dragon Bonds

(iv) Larger the no of buyers and sellers greater the

a. Liquidity b. Speculation
c. Hedging d. Forward Rate

(v) Exchange rate entail delivery of trade currency within two business days know as

a. Forward Rate b. Spot Rate
c. Bid Rate d. Future Rate

(vi) Differences in nominal interest rates are removed in exchange rate is

a. Fisher Effect
b. Leontief Paradox
c. Combined Equilibrium Theory
d. All of the above

(vii) Eurobonds are admired because

a. They are less risky than traditional bonds
b. European companies are considered very stable
c. Absence of Govt. Regulations
d. They are always denominated in Euro

(viii) Bid-ask spread in foreign exchange market is the

a. Price of currency in foreign exchange market
b. Difference between purchase and selling price of the currency
c. Price at which foreign loans have been issued
d. None of the above

(ix) International CAPM, market risk represents

a. Individual share
b. Individual currency
c. Stock market
d. None of the above

(x) Which of the following is a process of making risk less profit

a. Hedging
b. Speculating
c. Arbitrage
d. None of the above

Group – B

(Short Answer Type Questions) **3 x5 = 15**

Answer any *three* from the following

2.	(a)	What are the Hedging?	2
	(b)	What are the benefits of Hedging in Foreign Currency?	3
3.	(a)	What are the assumptions of Interest Rate Parity Theory	3
	(b)	How exchange rate is determined in Floating Exchange Rate system, explain with example.	2
4.	(a)	What are the exposures to foreign exchange risk?	3
	(b)	How Hedging is done through Futures ?	2

5. Let the spot rate £1 = €1.6140. Interest rate for coming 12 months is 5.5% for pound sterling and 3.75% for Euro. Suppose a bank quotes a 3 months forward rate as £1 = €1.5970. Analyze I any arbitrage opportunity is available or not? 5

6. The following bid and ask rates have been found

	Bid Rate	Ask Rate
Bank A (GBP/USD)	1.60	1.61
Bank B (MYR/USD)	0.20	0.202
Bank C (GBP/MYR)	8.10	8.20

Is there any triangular arbitrage profit available? 5

Group – C

(Long Answer Type Questions) **3 x 15 = 45**

Answer any *three* from the following

7. (a) What is Currency Arbitrage? 3

(b) The following information have been given

	Buying 1 US $	**Selling 1 US $**
Dealer A	₹ 61	₹ 62
Dealer B	₹ 63	₹ 64

In this scenario is any Arbitrage Profit available? If yes, then is the same profit making will continue in long run? Explain. 9

(c) What is the difference between Balance of Payment and Balance of Trade 3

8. (a) What are the types of Foreign Exchange Rates? 3

(b) What is ADR and GDR ? 4

(c) What are the steps involved in ADR Issue? 8

9. An Indian firm export garments to US. Currently it sells 20,000 pieces at $30 per piece. Its cost per piece of garment is ₹ 300. In addition it needs to import certain raw material which costs $10 per piece. The fixed costs of the company are ₹ 2,000,000. The current spot rate is ₹ 44/$. Suppose that the rupee appreciates to ₹ 40/$. By how many units should the company's sales increase for its profits to remain unchanged ? 15

10. An importer imports goods from US. The terms of payment is that $1,00,000 need to be paid after 3 months. The spot rate is $1 = ₹ 60 and 3 months forward rate $1 = ₹ 62. The importer have opted for the call option on the agreement that if it is ₹ 65/$ then the contract will be exercised and if it falls to ₹ 59/$ then this won't be exercised. The option premium is ₹ 0.50/$. The seller agreed at strike price of ₹ 60 after 3 months. Calculate if there is profit available for selecting the Currency Call Option. 15

11. Write Short Notes on
    - (a) Currency Pegging 5
    - (b) American vs. European Quote 5
    - (c) Interbank vs. Merchant Quote 5
