



BRAINWARE UNIVERSITY

Term End Examination 2023
Programme – MBA-2020/MBA-2021
Course Name – International Finance
Course Code - FM403
(Semester IV)

Library
Brainware University
398, Ramkrishnapur Road, Barasat
Kolkata, West Bengal-700125

Full Marks : 60

Time : 2:30 Hours

[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)

1 x 15=15

1. Choose the correct alternative from the following :

- (i) Depreciation of the euro relative to the U.S. dollar will cause a U.S.-based multinational firm's reported earnings (from the consolidated income statement) to _____. If a firm desired to protect against this possibility, it could stabilize its reported earnings by _____ euros forward in the foreign exchange market. (Choose among the following)
- a) Be reduced; purchasing
b) Be reduced; selling
c) Increase; selling
d) None of the above
- (ii) In a flexible exchange rate regime, a current account deficit is likely to be corrected by analysing of (Choose among the following)
- a) appreciation of home currency
b) drawing down on forex reserves
c) depreciation of home currency
d) higher inflation
- (iii) 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: (Choose among the following)
- a) The cost of borrowing funds in the U.K.
b) The cost of borrowing funds in the U.S.
c) The parent's cost of capital
d) None of the above
- (iv) _____ 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. Choose the correct option for the blank from below.
- a) Financing
b) Licensing
c) Capital introduction
d) None of the above
- (v) If a UK parent is setting up a French subsidiary, and funds from the subsidiary will be periodically sent to the parent, the ideal situation from the parent's perspective is a _____ after the subsidiary is established. Choose the correct blank among the following.
- a) Weak euro
b) Strengthening euro
c) Both (a) and (b)
d) None of the above

- (vi) Name among the following which is not a type of foreign exchange exposure.
- | | |
|-------------------------|-------------------------|
| a) Translation exposure | b) Transaction Exposure |
| c) Tax exposure | d) None of the above |
- (vii) Name the method among from below that may be viewed as most effective in protecting against economic exposure.
- | | |
|---------------------------------|----------------------------|
| a) Money market hedges | b) Futures market hedging |
| c) Geographical diversification | d) Forward contract hedges |
- (viii) Identify the date of settlement for a foreign exchange transaction among the following.
- | | |
|------------------|---------------------|
| a) Clearing date | b) Transaction date |
| c) Value date | d) All of the above |
- (ix) Name the one among the following which is the SDR given by the IMF to its member countries.
- | | |
|---------------|----------------------|
| a) Cold money | b) Paper money |
| c) Hot money | d) None of the above |
- (x) Explain Offshore Banking
- | | |
|---|---|
| a) An issue of warrants without any host bond. | b) Banking activity that accepts deposits and makes loans in currencies other than that of the country of location of the bank. |
| c) The total number of futures or options contracts on a given commodity that have not yet been offset by an opposite futures or option transaction | d) Purchases or sales of securities or other assets by the central bank. |
- (xi) Identify among the following which is not a part of structural adjustment suggested to countries by IMF.
- | | |
|---|---|
| a) Cutting expenditures or raising revenues, also known as austerity. | b) Devaluation of currencies, |
| c) changing government | d) Trade liberalisation, or lifting import and export restrictions, |
- (xii) Explain Open Interest
- | | |
|---|---|
| a) An issue of warrants without any host bond. | b) Banking activity that accepts deposits and makes loans in currencies other than that of the country of location of the bank. |
| c) The total number of futures or options contracts on a given commodity that have not yet been offset by an opposite futures or option transaction | d) Purchases or sales of securities or other assets by the central bank. |
- (xiii) Balance of payment can not be expressed in which of the following way?
- | | |
|--|---|
| a) It is also known as balance of international payments | b) The goods and services account is a part of balance of payment |
| c) Balance of trade and balance of payment is same | d) The secondary income account is a part of balance of payment |
- (xiv) If the interest rate on dollar deposits is 10 percent, and the dollar is expected to appreciate by 7 percent over the coming year, show the expected return on dollar deposits in terms of the foreign currency
- | | |
|---------|---------|
| a) 0.03 | b) 0.1 |
| c) 0.15 | d) 0.24 |
- (xv) Increased demand for a country's _____ causes its currency to appreciate in the long run, while increased demand for _____ causes its currency to depreciate.
- | | |
|---------------------|---------------------|
| a) Imports; imports | b) Imports; exports |
| c) Exports; exports | d) Exports; imports |

Group-B
(Short Answer Type Questions)

3 x 5=15

2. Explain Basis rate swap. (3)
3. Do you agree that fixed exchange rate is better than floating rates ? Explain. (3)
4. Define Arbitrage Pricing Theory (APT) (3)
5. Explain the different types of EURO Currency Bonds. (3)
6. Write a short note on SDRs. (3)

OR

Write a short note on internal hedging strategies. (3)

Group-C
(Long Answer Type Questions)

5 x 6=30

7. Explain the concept of net operating income of capital structure. (5)
8. Explain the concept of Euronotes. (5)
9. The cash inflow for next two years are Rs. 20000 and Rs. 30000 respectively against a cash outflow of Rs. 50000 now. Evaluate the NPV if the required rate of return is 12%. (5)
10. Describe the Currency Arbitrage. (5)
11. Explain the differences between delivery and cash settlement of a futures contract citing an example. (5)
12. Suppose a firm is expecting a perpetual net operating income of Rs.150 crore on assets of Rs.1500 crore which are entirely financed by equity. The firm's equity capitalization rate is 10%. The firm is considering to substitute the equity capital by issuing perpetual debentures of Rs.300 crore at 6% interest rate. The cost of equity is expected to increase to 10.56%.The firm is also considering raising perpetual debentures of Rs.600 crore and replacing equity. The debt-holders will charge interest of 7% and the cost of equity will rise to 12.50% to compensate shareholders for higher financial risk. Calculate the WACC in all these three scenarios (5)

OR

Suppose a firm is expecting a perpetual net operating income of Rs.150 crore on assets of Rs.1500 crore which are entirely financed by equity. The firm's equity capitalization rate is 10%. The firm is considering to substitute the equity capital by issuing perpetual debentures of Rs.300 crore at 6% interest rate. The cost of equity is expected to increase to 10.56%.The firm is also considering raising perpetual debentures of Rs.600 crore and replacing equity. The debt-holders will charge interest of 7% and the cost of equity will rise to 12.50% to compensate shareholders for higher financial risk. Draw the cost of capital graph explaining all three stages (increasing, optimum and declining value). (5)

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