



BRAINWARE UNIVERSITY

Term End Examination 2021 - 22

Programme – Master of Business Administration

Course Name – International Finance

Course Code - FM403

(Semester IV)

Time allotted : 1 Hrs.15 Min.

Full Marks : 60

[The figure in the margin indicates full marks.]

Group-A

(Multiple Choice Type Question)

1 x 60=60

Choose the correct alternative from the following :

- (1) In a flexible exchange rate regime, a current account deficit is likely to be corrected by analysing of

a) drawing down on forex reserves	b) depreciation of home currency
c) appreciation of home currency	d) higher inflation.
- (2) If the interest rate is 7 percent on euro deposits and 5 percent on dollar deposits, and if the dollar is expected to appreciate at a 4 percent rate,

a) Euro deposits have a higher expected return than dollar deposits	b) The expected return on euro deposits in terms of dollars is 11 percent.
c) The expected return on euro deposits in terms of dollars is 3 percent.	d) None of the above
- (3) Situation in which new business reduces an existing business of firm is classified as

a) Non-cannibalization effect	b) Cannibalization effect
c) External effect	d) Internal effect
- (4) In cash flow estimation, depreciation shelters company's income from

a) Expansion	b) Salvages
c) Taxation	d) Discounts
- (5) 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.

a) Strengthening euro	b) Weak euro
c) Bothe (a) and (b)	d) None of the above
- (6) 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 _____.

- a) Appreciate; low
c) Depreciate; high
- b) Appreciate; high
d) None of the above
- (7) 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
- a) Lower
c) Decrease
- b) Increase
d) None of the above
- (8) An international project's NPV is _____ related to the size of the initial investment and _____ related to the project's required rate of return.
- a) Positively; positively
c) Negatively; positively
- b) Positive; negatively
d) Negatively; negatively
- (9) A foreign project generates a negative cash flow in year 1 and positive cash flows in years 2 through 5. The NPV for this project will be higher if the foreign currency _____ in year 1 and _____ in years 2 through 5
- a) Depreciates; depreciates
c) Depreciates; appreciates
- b) Appreciates; appreciates
d) None of the above
- (10) 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.
- a) Be reduced; purchasing
c) Increase; selling
- b) Be reduced; selling
d) None of the above
- (11) With regard to hedging translation exposure, translation losses _____; and gains on forward contracts used to hedge translation exposure _____.
- a) Are not tax deductible; are taxed
c) Are not tax deductible; are not taxed
- b) Are tax deductible; are taxed
d) None of the above
- (12) If portable disk players made in China are imported into the United States, the Chinese manufacturer is paid with
- a) International monetary credits
c) Yuan, the Chinese currency.
- b) Dollars.
d) None of the above
- (13) By definition, currency appreciation occurs when
- a) The value of all currencies falls relative to gold.
c) The value of one currency rises relative to another currency.
- b) The value of all currencies rises relative to gold.
d) The value of one currency falls relative to another currency.
- (14) Which of the methods below may be viewed as most effective in protecting against economic exposure?
- a) Money market hedges
c) Forward contract hedges
- b) Futures market hedging
d) Geographical diversification
- (15) 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:

- a) Translation exposure
c) Economic exposure
- b) Exchange rate exposure
d) None of the above
- (16) A forward currency transaction:
- a) a. Is always at a premium over the spot rate
c) c. Calls for exchange in the future of currencies at an agreed rate of exchange
- b) b. Means that delivery and payment must be made within one business day (USA/Canada) or two business days after the transaction date
d) d. None of the above
- (17) The date of settlement for a foreign exchange transaction is referred to as:
- a) Clearing date
c) Transaction date
- b) Value date
d) All of the above
- (18) The difference between the value of a call option and a put option with the same exercise price is due primarily to:
- a) The greater liquidity of call options
c) The differential between the current stock price and the exercise price in present value terms
- b) The use of continuous as opposed to discrete discounting
d) All of the above
- (19) Counterparty risk is:
- a) a. The risk of loss when exchange rates change during the period of a financial contract
c) c. The risk of loss if the other party to a financial contract fails to honor its obligation
- b) b. Based on the notional amount of the contract
d) d. Present only with exchange-traded options
- (20) Which of the following theories suggests that firms seek to penetrate new markets over time?
- a) Theory of comparative advantage
c) Product cycle theory
- b) Imperfect markets theory
d) None of the above
- (21) 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
- a) Product fees
c) Capital fees
- b) Periodic fees
d) None of the above
- (22) _____ 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.
- a) Financing
c) Capital introduction
- b) Licensing
d) None of the above
- (23) The term privatization is typically used to describe:
- a) Firms that are purchased by their managers
c) Firms that are bought out by other firms.
- b) Firms that are purchased by the government
d) Government operations that are purchased by corporations and other investors.
- (24) 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.

- a) Loss; smaller
- b) Loss; larger
- c) Gain; larger
- d) None of the above

(25) An effective way for an MNC to assess its economic exposure is to look at the firm's:

- a) Income statement
- b) Retained earnings
- c) Liquidity
- d) Stockholder's liquidity

(26) Which of the following is the most likely strategy for a UK firm that will be receiving Swiss francs in the future and desires to avoid exchange rate risk (assume the firm has no offsetting position in francs)?

- a) Purchase a call option on francs
- b) Sell a futures contract on francs.
- c) Obtain a forward contract to purchase francs forward.
- d) None of the above

(27) 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?

- a) £36,750.
- b) £1,050
- c) £37,800.
- d) £38,850

(28) Which of the following are true regarding the options markets?

- a) Hedgers and speculators both attempt to lower risk
- b) Hedgers attempt to lower risk, while speculators attempt to make riskless profits.
- c) Hedgers and speculators are both necessary in order for the market to be liquid.
- d) All of the above

(29) Forward premium / differential depends upon

- a) Currencies fluctuation
- b) Interest rate differential between two countries
- c) Demand & supply of two currencies
- d) None of the above

(30) The exchange rate is the

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

(31) Exchange rates

- a) Are always fixed
- b) Fluctuate to equate the quantity of foreign exchange demanded with the quantity supplied
- c) Fluctuate to equate imports and exports
- d) All of the above

(32) A speculator in foreign exchange is a person who

- a) Earns illegal profit by manipulation foreign exchange
- b) Causes differences in exchange rates in different geographic markets
- c) Buys foreign currency, hoping to profit by selling it at a higher exchange rate at some later date
- d) None of the above

(33) Under a gold standard,

- a) A nation's central bank or monetary authority has absolute control over its money supply
- b) A nation's currency can be traded for gold at a fixed rate
- c) New discoveries of gold have no effect on money supply or prices
- d) All of the above
- (34) The current system of international finance is a
- a) Gold standard
- b) Floating exchange rate system
- c) Managed float exchange rate system
- d) None of the above
- (35) If your local currency is in variable form and foreign currency is in fixed form the quotation will be:
- a) Indirect
- b) Direct
- c) Local form
- d) All of the above
- (36) According to the text, products and services are generally becoming _____ standardized across countries, which tends to _____ the globalization of business.
- a) More; encourage
- b) More; discourage
- c) Less; discourage
- d) All of the above
- (37) According to the text, a disadvantage of licensing is that:
- a) It prevents a firm from importing.
- b) It is difficult to ensure quality control of the production process.
- c) It prevents a firm from exporting.
- d) None of the above
- (38) Which of the following is not mentioned in the text as a constraint interfering with the MNC goal?
- a) Economic constraints
- b) Environmental constraints
- c) Regulatory constraints.
- d) Ethical constraints.
- (39) Which of the following is not mentioned in the text as an additional risk resulting from international business?
- a) Exchange rate fluctuations
- b) Political risk.
- c) Interest rate risk.
- d) None of the above
- (40) The purchase of a currency put option would be appropriate for which of the following?
- a) Investors who expect to buy a foreign bond in one month.
- b) Corporations who expect to buy foreign currency to finance foreign subsidiaries
- c) Corporations who expect to collect on a foreign account receivable in one month.
- d) None of the above
- (41) When a firm perceives that a foreign currency is _____, the firm may attempt direct foreign investment in that country, as the initial outlay should be relatively _____
- a) Overvalued; high
- b) Overvalued; low
- c) Undervalued; high
- d) Undervalued; low
- (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:
- a) 14.54 %.
- b) 14.00%.
- c) -3.54%.
- d) +3.54%.
- (43) In a quote exchange rate, the currency that is to be purchase with another currency is called the

- a) Liquid currency
c) Local Currency
- b) Foreign Currency
d) Base Currency
- (44) Which of the following is NOT a criticism of a flexible exchange rate system?
- a) Flexible exchange rates tend to be variable and therefore cause more uncertainty
c) Under flexible exchange rates, trading countries tend to rely more heavily upon tariffs and other restrictions
- b) Flexible exchange rate systems require discipline on the part of central banks that may not be forthcoming
d) The flexible exchange rate system reduces the power of fiscal policy
- (45) Arbitrageurs in foreign exchange markets:
- a) Attempt to make profits by outguessing the market
c) Take advantage of the small inconsistencies that develop between markets
- b) Make their profits through the spread between bid and offer rates of exchange
d) Need foreign exchange in order to buy foreign goods
- (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
- a) Euro dollar transaction
c) Foreign Exchange Transaction
- b) Import / Export Exchange
d) None of the above
- (47) Which of the following is not a way in which create agency problems and can be reduced through corporate control?
- a) Executive compensation
c) Acquisition of a foreign subsidiary.
- b) Threat of hostile takeover
d) Monitoring by large shareholders
- (48) Rule which states that similar set of goods and services produced in various countries should have equal price is classified as
- a) Law of similar mortgage rate
c) Law of similar labor rules
- b) Law of one type manufacturing
d) Law of one price
- (49) In equilibrium position, spread between foreign and domestic rate of interest must be equal to spread of
- a) Domestic rates
c) Forward rate
- b) Forward and spot exchange rates
d) Spot rates
- (50) Theory which considers change in exchange rate with fluctuations in inflation rates is classified as
- a) Liquidated power parity
c) Selling power parity
- b) Purchasing power parity
d) Volatile power parity
- (51) Forward exchange rates
- a) Involve the immediate exchange of bank deposits.
c) Involve the immediate exchange of imports and exports.
- b) Involve the exchange of bank deposits at some specified future date.
d) None of the above
- (52) The commonly accepted goal of the MNC is to
- a) Maximize short-term earnings.
c) Minimize risk.
- b) Maximize shareholder wealth
d) None of the above
- (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 _____.

- a) Shareholder wealth; short-term earnings
 c) Short term earnings, sales volume
- b) Shareholder wealth; shareholder wealth
 d) Short-term earnings; shareholder wealth
- (54) For the MNC, agency costs are typically:
- a) Non-existent
 c) Smaller than agency costs of a small purely domestic firm.
- b) Larger than agency costs of a small purely domestic firm.
 d) The same as agency costs of a small purely domestic firm.
- (55) In real world, all factors of production are perfectly
- a) Mobile
 c) Somewhat mobile
- b) Immobile
 d) None of the above
- (56) We multiply foreign revenue with rate with respect to that country is
- a) Forward rate
 c) Cash Flows
- b) Spot rate
 d) Portfolio Investment
- (57) Agency problem is between
- a) Manager and Employees
 c) Manager and Shareholders
- b) Manager and Government
 d) Parent to Subsidiary
- (58) Greater the exposure bigger the(K4)
- a) Investment
 c) Forward rate
- b) Spot rate
 d) Risk
- (59) When the exchange rate for the euro changes from \$1.00 to \$1.20, then, holding everything else constant, the euro ha
- a) Appreciated and German cars sold in the United States become more expensive
 c) Depreciated and American wheat sold in Germany becomes more expensive.
- b) Appreciated and German cars sold in the United States become less expensive
 d) Depreciated and American wheat sold in Germany becomes less expensive
- (60) Evidence from the United States during the period 1973-2016 indicates the correspondence between nominal interest rates and exchange rate movements is
- a) Much closer than that between real interest rates and exchange rate movements
 c) Not nearly as close as that between government deficits and exchange rate movements
- b) Not nearly as close as that between government spending and exchange rate movements
 d) Not nearly as close as that between real interest rates and exchange rate movements