Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, May 2019

Course: INTERNATIONAL FINANCIAL MANAGEMENT — **Semester: IV**
Program: BBA-FAS — **Time: 03 Hours**
Course code: FINC-2014 — **Max. Marks: 100**

SECTION A

	Attempt all questions	Marks	CO
Q 1 (a)	From 1944 to 1971, the exchange rate between any two currencies was typically: a. Fixed within narrow boundaries. b. Floating, but subject to central bank intervention. c. Floating, and not subject to central bank intervention. d. Nonexistent; that is currencies were not exchanged, but gold was used to pay for all foreign transactions.	**2**	**1&2**
(b)	Futures contracts are typically _______; forward contracts are typically _______. a. sold on an exchange; sold on an exchange b. offered by commercial banks; sold on an exchange c. sold on an exchange; offered by commercial banks d. offered by commercial banks; offered by commercial banks	**2**	**1&3**
(c)	The strike price is also known as the premium price. a. True b. False	**2**	**2&3**
(d)	Under the gold standard, each currency was convertible into gold at a specified rate, and the exchange rate between two currencies was determined by their relative convertibility rates per ounce of gold. a. True b. False	**2**	**3&4**
(e)	Eurobonds are certificates representing bundles of stock. a. True b. False	**2**	**2&3**
(f)	Currency devaluation can boost a country's exports, but currency revaluation can increase foreign competition. a. True b. False	**2**	**1&2**
(g)	Which of the following is not a forecasting technique? a. Accounting-based forecasting. c. Fundamental forecasting. b. Technical forecasting. d. Market-based forecasting.	**2**	**1&2**
(h)	The Bretton Woods Agreement created a system under which exchange rates are determined by market forces without intervention by various governments.	**2**	**1&2**

	a. True b. False		
(i)	Privatization involves the sale of previously government-owned businesses by the government. a. True b. False	**2**	**2&3**
(j)	Corporations tend to make only limited use of technical forecasting because it typically focuses on the near future, which is not very helpful for developing corporate policies. a. True b. False	**2**	**1&2**
	SECTION B		
	Short notes (Attempt all)		
Q 2.	Special drawing rights	**5**	**1&2**
Q 3.	Multi National Corporation	**5**	**1&4**
Q 4.	Currency Derivatives	**5**	**2&4**
Q 5.	Transaction Exposure	**5**	**3&4**
	SECTION-C		
	Long answers (Attempt all)		
Q 6.	Discuss the various participants in the forex markets.	**10**	**2&4**
Q 7.	Explain how a country can run an overall balance of payments deficit or surplus.	**10**	**2&4**
Q 8.	What is meant by terminology that an option is in-, at-, or out of the money?	**10**	**2&4**
	SECTION-D		
	Case study (Attempt all)		
	A speculator is considering the purchase of five three-month Japanese yen call options with a striking price of 96 cents per 100 yen. The premium is 1.35 cents per 100 yen. The spot price is 95.28 cents per 100 yen and the 90 day forward rate is 95.71 cents. The speculator believes the yen will appreciate to $ 1.00 per 100 yen over the next three months. As the speculator's assistant, you have been asked to prepare the following:		
Q 9.	Determine the speculator's profit if yen appreciates to $1.00/100 yen	**10**	**1,2&4**
Q10.	Determine the speculator's profit if yen appreciates only to the forward rate.	**10**	**1,2&4**
Q11.	Determine the future spot price at which the speculator will only break even.	**10**	**1,2&4**

Set-2

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Instructions:

SECTION A

		Marks	CO
	(Attempt all)		
Q 1. a.	Under the gold standard, each currency was convertible into gold at a specified rate, and the exchange rate between two currencies was determined by their relative convertibility rates per ounce of gold. c. True d. False	**2**	**1&2**
b.	An increase in the current account deficit will place _______ pressure on the home currency value, other things equal. a. upward b. downward c. no d. upward or downward (depending on the size of the deficit)	**2**	**1&3**
c.	Which of the following would likely have the least direct influence on a country's current account? a. Inflation. b. National income. c. Exchange rates. d. Tariffs. e. A tax on income earned from foreign stocks.	**2**	**2,3&4**
d.	LIBOR is: a. The interest rate commonly charged for loans between banks. b. The average inflation rate in European countries. c. \The maximum loan rate ceiling on loans in the international money market. d. The maximum deposit rate ceiling on deposits in the international money market. e. The maximum interest rate offered on bonds that are issued in London.	**2**	**1,2&3**
e.	If inflation in New Zealand suddenly increased while euro area inflation stayed the same, there would be: a. An inward shift in the demand schedule for NZ$ and an outward shift in the supply schedule for NZ$. b. An outward shift in the demand schedule for NZ$ and an inward shift in the supply schedule for NZ$. c. An outward shift in the demand schedule for NZ$ and an outward shift in the supply schedule for NZ$. d. An inward shift in the demand schedule for NZ$ and an inward shift in the supply schedule for NZ$.	**2**	**1,2&3**
f.	The exchange rates of smaller countries are very stable because the market for their currency is very liquid.	**2**	**1,2&3**

	a. True b. False		
g.	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	**2**	**2&3**
h.	The premium of a currency put option will increase if: a. The volatility of the underlying asset goes up. b. The time to maturity goes up. c. The spot rate declines. d. none of the above	**2**	**2&3**
i.	A primary result of the Bretton Woods Agreement was: a. The establishment of the European Monetary System (EMS). b. Establishing specific rules for when tariffs and quotas could be imposed by governments. c. Establishing that exchange rates of most major currencies were to be allowed to fluctuate 1% above or below their initially set values. d. Establishing that exchange rates of most major currencies were to be allowed to fluctuate freely without boundaries (although the central banks did have the right to intervene when necessary).	**2**	**1,2&3**
j.	For locational arbitrage to be possible, one bank's ask rate must be higher than another bank's bid rate for a currency. a. True b. False	**2**	**1,2&3**
	SECTION B		
	Short notes **(Attempt all)**		
Q 2.	Balance of payment	**5**	**3&4**
Q 3.	Forex Management	**5**	**3&4**
Q 4.	Currency risk	**5**	**1,3&4**
Q 5.	Hedging	**5**	**1,2&3**
	SECTION-C		
	Long answers **(Attempt all)**		
Q 6.	Distinguish between 'Foreign direct investments' (FDI) and 'Portfolio Investment' and discuss the different strategies of portfolio investment.	**10**	**3&4**
Q 7.	Explain the meaning of derivative with the help of various illustrations.	**10**	**2&3**
Q 8.	Suggest some of the ways of managing economic exposure.	**10**	**1,2&3**
	SECTION-D		
	Case study Attempt all Questions		

	Airbus sold an A400 aircraft to Delta Airlines, a U.S. Company, and billed \$30 million payable in six months. Airbus is concerned about the euro proceeds from international sales and would like to control exchange risk. The current spot exchange rate is \$1.05/euro and the six month forward exchange rate is \$1.10/euro. Airbus can buy six-month put option on U.S. dollar with a strike price of euro 0.95/\$ for a premium of euro 0.02/\$. Currently, six-month interest rate is 2.5 % in the euro zone and 3.0% in the United States.		
Q 9.	If Airbus decides to hedge using money market instruments, what action does Airbus need to take? What would be guaranteed euro proceeds from American sale in this case?	**10**	**1,2&4**
Q 10.	If Airbus decides to hedge using put options on U.S. dollars, what would be the "expected" euro proceeds from the American sale? Assume that Airbus regards the current forward exchange rate as an unbiased predictor of the future spot exchange rate.	**10**	**1,2&4**
Q 11.	At what future spot exchange do you think Airbus will be indifferent between the options and money market hedge?	**10**	**1,2&4**