Name: Enrolment No:	UPES UNIVERSITY OF TOMORROW

End Semester Examination, May 2024

Course: International Banking **Semester: IV**
Program: B.COM (HONS) E.COM/BI **Time: 03 Hrs.**
Course Code: FINC2046P **Max. Marks: 100**
Instructions: 1. Attempt all questions; 2. Use of calculators including scientific calculators is allowed

SECTION A
10Qx2M= 20 Marks

S. No.		Marks	CO
Q 1	**MULTIPLE CHOICE**: Choose the one alternative that best completes the statement or answers the question. (Write the question number and the choice letter A, B, C, or D only on your answer sheet).		
1.1	Which of the following is the central bank of the Eurozone? A) Federal Reserve B) Bank of England C) European Central Bank (ECB) D) Bank of Japan	**2**	**CO1**
1.2	All of the following are functions of a central bank EXCEPT: A) Setting interest rates B) Issuing currency C) Supervising banks D) Providing loans directly to consumers	**2**	**CO1**
1.3	What happens when the central bank withdraws reserves from the market? A) None of the following. B) The interbank interest rate rises. C) The interbank interest rate doesn't change. D) The interbank interest rate drops.	**2**	**CO1**
1.4	If the prices of goods and services increase, the value of money (its purchasing power) A) increases. B) decreases. C) stays the same. D) can either increase or decrease.	**2**	**CO1**
1.5	5. Eurocurrency is a time deposit in an international bank located in a country------------------- A) in Europe B) different than the country that issued the currency C) in the developed world D) None of the above	**2**	**CO1**
1.6	A ----------------- relationship exists when two banks maintain deposits with each other.	**2**	**CO1**

	A) correspondent banking B) consortium banking C) syndicate banking D) offshore banking		
1.7	The following three aspects of a monetary system are jointly incompatible: monetary policy independence; _______ exchange rates; and _______ . A) floating; capital controls B) floating; free capital mobility C) fixed; capital controls D) fixed; free capital mobility	**2**	**CO1**
1.8	The IMF is responsible for: A) Financing infrastructure projects in developing countries B) Promoting international monetary cooperation and stability C) Providing humanitarian aid to disaster-stricken areas D) Managing intellectual property rights	**2**	**CO1**
1.9	The interest rate corridor is a monetary policy tool used by central banks. It refers to the range between: A) The inflation rate and the unemployment rate. B) The federal funds rate and the prime rate. C) The standing lending facility rate and the standing deposit facility rate. D) Short-term and long-term interest rates in the economy.	**2**	**CO1**
1.10	Which of the following is NOT a tool a central bank might use to promote financial stability? A) Setting interest rates B) Directly investing in stocks and bonds C) Regulating capital requirements for banks D) Conducting stress tests on financial institutions	**2**	**CO1**
	SECTION B **4Qx5M= 20 Marks**		
2.1	Many Central Banks are considering Central Bank Digital Currencies (CBDCs). What are these?	**5**	CO2
2.2	How does a central bank (like the Federal Reserve) conduct monetary policy using open market operations?	**5**	CO2
2.3	What is “interest rate corridor” used by Central Banks to conduct monetary policy?	**5**	CO2
2.4	What are money market mutual funds?	**5**	CO2
	SECTION-C **3Qx10M= 30 Marks**		
3.1	The RBI's Market Stabilization Scheme (MSS) is a tool used to manage excess liquidity in the Indian economy, specifically arising from the central bank's interventions in the foreign exchange market. How does it work?	**10**	**CO3**
3.2	Explain the concept of keiretsu and how it affects the Japanese banking system.	**10**	**CO3**
3.3	The European Banking Union is an important step towards a genuine Economic and Monetary Union. It allows for the consistent application of European Union	**10**	**CO3**

	banking rules in the participating countries. Explain how the two key pillars of the banking union- the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) help to achieve this goal.		
SECTION-D **2Qx15M = 30 Marks**			
4.1	Oregon Scientific (OS), a company in USA has signed a contract to purchase LCD panels from Germany for €1,300,000. The purchase is made in June, payment is due 6 months later, in December. OS is considering hedging its forex exposure. The following information is available. Spot exchange rate: \$0.89/€ Euro 6-month borrowing/lending rate is 6% per annum (or 3 % for 6 months) U.S. 6-month borrowing/ lending rate is 10% per annum (or 5% for 6 months) 6- month Forward contract on € is available @ \$0.95/€ Oregon Scientific (OS) can hedge its forex exposure by entering a money market hedge. Borrow \$ to buy the present value of €1,300,000 in June itself. Invest this amount and it will grow to the amount it needs to pay the German exporter in December. Or it can go long on the 6-month forward contract to buy euros in December when payment to the German exporter is due. Oregon Scientific (OS) is a client of your bank and you have been asked to offer your recommendation. Evaluate which of the two hedges is a better hedge. You need to compare the \$ amount that OS has to pay (principal plus interest) for the money market hedge compared to the \$ amount that it will spend while using the Forward contract to buy Euros in December.	**15**	**CO4**
4.2	Bank of America (located in US) wants to buy £ 1million from HSBC (a seller in UK). They have decided on the price of \$1.25 per £. Bank of America has a correspondent banking relationship with Barclays in UK. Similarly, HSBC has correspondent banking relationship with JPMorgan Chase in USA. (Assume all the 4 banks have no foreign presence in the form of branches or subsidiaries and they only make use of correspondent banking relationships). The central bank of US is the Federal Reserve and that of UK is Bank of England. Outline how this foreign exchange transaction will be settled.	**15**	**CO4**