Name: **Enrolment No:**	

UPES

End Semester Examination, May 2024

Course: International Finance and Risk Management | **Semester: IV**

Program: MBA-SPZ-FIN | **Time : 03 hrs.**

Course Code: FINC8011 | **Max. Marks: 100**

Instructions:

SECTION A

10Qx2M=20Marks

S. No.		Marks	CO
Q 1	What is the primary objective of multinational corporations (MNCs)? a) To maximize profits within a single domestic market b) To minimize international trade and investments c) To expand operations and diversify revenue streams across multiple countries d) To maintain strict adherence to local regulations and customs	**2**	**CO1**
Q2	How do global financial markets impact multinational firms? a) They create barriers to entry for new multinational competitors b) They provide opportunities for raising capital and managing risks c) They limit access to international investment opportunities d) They increase dependency on domestic financial institutions	**2**	**CO1**
Q3	What is the significance of interest rates in the global financial markets? a) Interest rates only affect domestic financial markets and have no international implications b) Changes in interest rates impact borrowing costs and investment decisions globally c) Interest rates have no effect on exchange rates between different currencies d) Interest rates are determined solely by domestic economic conditions and policies	**2**	**CO1**
Q4	What is the purpose of risk models in financial management? a) To increase exposure to market uncertainties b) To predict future fluctuations in currency values accurately c) To eliminate the need for risk assessment and mitigation strategies d) To quantify and manage various types of financial risks	**2**	**CO1**
Q5	What are currency futures contracts primarily used for? a) Speculative trading in foreign exchange markets b) Physical delivery of currencies at a predetermined price and date	**2**	**CO1**

	c) Hedging against interest rate fluctuations d) Long-term investment in international markets		
Q6	Which of the following is an example of transaction exposure? a) The risk of adverse effects on a company's financial position due to exchange rate fluctuations b) The risk of translation gains or losses on foreign subsidiary financial statements c) The risk of changes in future cash flows from existing foreign currency transactions d) The risk of fluctuations in interest rates affecting the cost of borrowing	**2**	**CO1**
Q7	What does the term "cost of capital" refer to in the context of multinational firms? a) The total expenses incurred by a company in its operations b) The cost associated with acquiring physical assets c) The required return on investment for shareholders and creditors d) The price of goods and services in international markets	**2**	**CO1**
Q8	What are some practical considerations in deciding a subsidiary's capital structure for multinational firms? a) Consistency with the parent company's capital structure b) Adherence to local tax regulations and market conditions c) Maximizing leverage regardless of market conditions d) Ignoring currency risk and focusing solely on equity financing	**2**	**CO1**
Q9	How are mergers and acquisitions (M&As) typically evaluated by multinational firms? a) Based solely on historical financial performance b) By considering potential synergies, market positioning, and strategic fit c) Without considering the impact on shareholders and stakeholders d) By ignoring cultural and regulatory differences between countries	**2**	**CO1**
Q10	What is involved in trading international equities? a) Buying and selling shares of foreign companies listed on domestic stock exchanges b) Engaging in speculative trading of commodities across borders c) Exchanging currency notes at international airports d) Trading government bonds in global financial markets	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
Q11	What are the responsibilities of an international financial manager in a multinational corporation?	**5**	**CO2**
Q12	Differentiate between currency forwards and currency futures.	**5**	**CO2**
Q13	What is the Binomial Option Pricing model, and how does it work?	**5**	**CO2**

<table>
<tr><td>Q14</td><td>What are the practical factors to consider when determining the capital structure of a subsidiary?</td><td>5</td><td>CO2</td></tr>
<tr><td colspan="4" align="center">SECTION-C
3Qx10M=30 Marks</td></tr>
<tr><td>Q15</td><td>Companies A and B have been offered the following rates per annum on a $20 million 5-year loan:
<table><tr><td></td><td>Fixed rate</td><td>Floating rate</td></tr><tr><td>Company A</td><td>5.0%</td><td>LIBOR+0.1%</td></tr><tr><td>Company B</td><td>6.4%</td><td>LIBOR+0.6%</td></tr></table>Company A requires a floating–rate loan ; company B requires a fixed–rate loan. Design a swap that will net a bank, acting as intermediary, 0.1% per annum and that will appear equally attractive to both companies.</td><td>10</td><td>CO3</td></tr>
<tr><td>Q16</td><td>Using the concept of interest rate parity, analyze a hypothetical scenario where two countries, Country A and Country B, have different interest rates. Provide a detailed explanation of how interest rate parity would affect the exchange rate between their currencies, considering factors such as inflation rates, risk premiums, and capital flows. Additionally, discuss the implications of interest rate differentials on international trade and investment in this scenario.
Or
Apply purchasing power parity (PPP) theory to assess how varying inflation rates between two countries influence their currency exchange rates and purchasing power. Discuss the potential impact of PPP deviations on international trade and investment.</td><td>10</td><td>CO3</td></tr>
<tr><td>Q17</td><td>Explain the International Capital Asset Pricing Model (ICAPM) and its application within foreign markets. Analyze how ICAPM assists in understanding and managing investment risks and returns in international contexts, considering factors such as exchange rate fluctuations and global market integration.</td><td>10</td><td>CO3</td></tr>
<tr><td colspan="4" align="center">SECTION-D
2Qx15M= 30 Marks</td></tr>
<tr><td>Q18</td><td>Examine the advantages and challenges of sourcing equity globally and trading in international equities. Evaluate the key factors that influence international equity investments, such as political stability, economic conditions, regulatory environments, and currency fluctuations. Assess the impact of these factors on investment decision-making and portfolio diversification strategies in the context of global markets.

Or
a) Find out the bid rate if ask rate is Rs. 82/US$ and the bid-ask spread is 1.22%
b) The administered exchange rate in India was Rs. 45/US$ during 2009-10. The price index in India and USA rose by 61% and 32 % respectively. Find out whether there was any change in real exchange rate during this period.
c) Find out the forward rate differential if spot rate of US/$</td><td>15</td><td>CO4</td></tr>
</table>

	is Rs. 80.00- and one-month forward rate is Rs. 80.50		
Q19	Hogwards Ltd., a multinational corporation (MNC), is considering two investment projects, Project A and Project B, in different countries. Project A requires an initial investment of $1,000,000 and is expected to generate annual cash flows of $300,000 for the next five years. Project B requires an initial investment of €800,000 and is expected to generate annual cash flows of €250,000 for the next five years. The current spot exchange rate is $1.20/€. Calculate the net present value (NPV) of both projects at 10% discount rate. Based on the NPV calculations, which project should the MNC choose? Explain the rationale behind your decision. Discounting factor at l0% are 0.909, 0.826, 0.751, 0.683, 0.621, for 1 to 5 years respectively.	**15**	**CO4**