Name: **Enrolment No:**	UPES UNIVERSITY OF TOMORROW

End Semester Examination, May 2024

Course: International Banking **Semester: VI**
Program: INT B.COM - MBA **Time: 03 Hrs.**
Course Code: FINC3059 **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	The Federal Reserve is responsible for setting monetary policy in: A) The United Kingdom B) The European Union C) The United States D) Japan	**2**	**CO1**
1.2	Which central bank is known for its long struggle with deflation (falling prices)? A) Federal Reserve B) Bank of England C) European Central Bank (ECB) D) Bank of Japan	**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	When prices rise A) the purchasing power of money rises. B) the purchasing power of money falls. C) the purchasing power of money remains unchanged. D) the purchasing power of money either rises or falls, depending upon the size of the national debt.	**2**	**CO1**
1.5	If the inflation rate is expected to be 5 percent and nominal interest rate is 9 percent, then the real interest rate will be approximately A) 14 % B) 9 % C) 5 % D) 4 %	**2**	**CO1**
1.6	The functions of the International Monetary Fund include all of the following except...	**2**	**CO1**

	A) to provide emergency loans to countries facing balance of payments problems. B) to monitor macroeconomic developments continuously in member countries. C) to serve as the world central bank. D) to provide a line of credit for each member country.		
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 primary focus of the World Bank is: A) To provide short-term loans to countries facing financial crises B) To promote long-term economic development through loans and grants C) To regulate international trade agreements D) To set global interest rates	**2**	**CO1**
1.9	The money market deals with: A) Long-term investments like stocks and bonds B) Short-term financial instruments like treasury bills and commercial paper C) Real estate transactions and mortgages D) International currency exchange rates	**2**	**CO1**
1.10	A central bank might use an interest rate corridor to: A) Directly control mortgage rates for homeowners. B) Signal its monetary policy stance and influence short-term interest rates. C) Control the exchange rate between its currency and other currencies. D) Generate revenue for the government.	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
2.1	What are repurchase agreements (repos)?	**5**	CO2
2.2	What is the meaning of the term "Lender of Last Resort" as applied to a Central Bank?	**5**	CO2
2.3	What is "interest rate corridor" used by Central Banks to conduct monetary policy?	**5**	CO2
2.4	How are open market operations used by Central Banks to conduct monetary policy?	**5**	CO2
SECTION-C **3Qx10M= 30 Marks**			
3.1	In the US, the Gramm-Leach-Bliley Act of 1999 repealed the restrictions on banks affiliating with securities firms that led to the creation of financial holding companies. What is a financial holding company? How is it different from a bank holding company?	**10**	**CO3**
3.2	Explain the concept of keiretsu and how it affects the Japanese banking system.	**10**	**CO3**

3.3	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**
	SECTION-D **2Qx15M = 30 Marks**		
4.1	HDFC Bank (located in India) wants to buy $ 1 million from Bank of America (a seller in US). They have decided on the price of Rs 83 per $. HDFC has a correspondent banking relationship with JPMorgan Chase in US. Similarly, Bank of America has correspondent banking relationship with SBI in India. (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 India is RBI. Outline how this foreign exchange transaction will be settled.	**15**	**CO4**
4.2	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 10% per annum (or 5 % for 6 months) U.S. 6-month borrowing/ lending rate is 8% per annum (or 4% for 6 months) 6- month Forward contract on € is available @ $0.85/€ 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**