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

End Semester Examination, December 2024

Course: International Finance Management **Semester: III**
Program: MBA IB **Time: 03 Hrs.**
Course Code: FINC8003 **Max. Marks: 100**
Instructions: 1. Attempt all questions; 2. Use of calculators including scientific calculators is allowed; 3. In a currency pair quotation the first currency is the base currency. Thus, in JPY/EUR, JPY is the base currency and EUR is the terms or quote currency.

SECTION A
10Qx2M=20Marks

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 difference between the bid and ask price of a currency is known as the: A) Spread B) Margin C) Premium D) Discount	**2**	**CO1**
1.2	A forward rate is: A) The exchange rate for a currency exchange that will occur at a specified future date. B) The exchange rate for a currency exchange that occurred in the past. C) The exchange rate for a currency exchange that is expected to occur in the future. D) The exchange rate for a currency exchange that is determined by market forces.	**2**	**CO1**
1.3	Which type of arbitrage involves taking advantage of price discrepancies across different markets? A) Covered interest arbitrage B) Spatial arbitrage C) Triangular arbitrage D) Statistical arbitrage	**2**	**CO1**
1.4	Which theory states that the exchange rate between two currencies will adjust to reflect changes in the relative price levels of the two countries?	**2**	**CO1**

	A) Interest Rate Parity B) Purchasing Power Parity C) Fisher Effect D) International Fisher Effect		
1.5	Interest rate parity implies: A) Forward rates can predict future spot rates B) Currency values will remain constant over time C) No arbitrage opportunities exist between currencies D) Exchange rates are influenced by stock market performance	**2**	**CO1**
1.6	A firm's long-term competitive position can be affected by changes in exchange rates. This is known as: A) Transaction exposure B) Economic exposure C) Translation exposure D) Political risk	**2**	**CO1**
1.7	Which currency risk can be mitigated using a forward contract? A) Credit risk B) Market risk C) Transaction risk D) Operational risk	**2**	**CO1**
1.8	Currency deposited in a bank outside the country of origin is known as: A) Eurocurrency B) Foreign currency C) Domestic currency D) International currency	**2**	**CO1**
1.9	To mitigate country risk in capital budgeting, analysts use: A) A standardized discount rate for all projects. B) Adjusted cash flow projections based on political stability. C) Currency neutralization techniques. D) Only historical data from similar projects.	**2**	**CO1**
1.10	What best describes an FX swap? A) Buying and selling the same currency at different prices B) An agreement to exchange currency pairs at the spot rate and reverse that exchange at a specified future date C) A futures contract for foreign exchange D) A method to hedge against credit risks	**2**	**CO1**

SECTION B **4Qx5M= 20 Marks**			
Q			
2.1	Which of the following are Eurodollars and which are not Eurodollars? Why? a. A US $ deposit owned by a German corporation and held in Barclay's Bank of London. b. A US $ deposit owned by a German corporation and held in the New York branch of Deutsche Bank.	**5**	**CO2**
2.2	List the tools (not explain) that a firm can use to hedge transaction exposure.	**5**	**CO2**
2.3	Assume that a Big Mac hamburger is selling for £1.99 in the United Kingdom, the same hamburger is selling for $2.71 in the United States, and the actual exchange rate (to buy $1.00 with British pounds) is £ 0.75/$. According to the purchasing Power parity, is the British pound is **overvalued or undervalued** against the US dollar? Show calculations.	**5**	**CO2**
2.4	The 1-year interest rate in the U.S. is 2%, and in the UK, it is 5%. The current spot exchange rate (USD/GBP) is 1.3050. What is the 1-year forward exchange rate that eliminates the arbitrage opportunity?	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			
Q			
3.1	Currently, you can exchange USD1 for 105 JPY or 0.74 EUR in New York. In Tokyo, the exchange rate is JPY1 = 0.0075 EUR. If you have USD 1,000, how much profit can you earn using triangle arbitrage? Show calculations.	**10**	**CO3**
3.2	How does interest rate parity explain exchange rate movements?	**10**	**CO3**
3.3	What is the difference between the parent company perspective and the subsidiary perspective in international capital budgeting? **OR** Exchange Rates: • Frankfurt: GBP/EUR = 1.1500 - 1.1600 • London: GBP/EUR = 1.1550 - 1.1650 Is there a locational arbitrage opportunity if you start with £4,000? How much profit can be made?	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
Q			

4.1	XYZ Corp is considering investing \$2 million to establish a production facility in Argentina. The expected cash inflows over the next 5 years in Argentine pesos (ARS) are as follows: • Year 1: 8 million ARS • Year 2: 9 million ARS • Year 3: 10 million ARS • Year 4: 11 million ARS • Year 5: 12 million ARS The current exchange rate is 1 USD = 350 ARS. However, it is expected that the ARS will depreciate by 5% each year against the USD. a) Calculate the cash flows in USD after adjusting for the expected depreciation. b) Determine the NPV of the investment using a discount rate of 10%.	**15**	**CO4**
4.2	A U.S. company expects to receive €1,000,000 in 6 months from a sale in France. The current spot exchange rate is 1 USD = 0.85 EUR, and the 6-month forward rate is 1 USD = 0.83 EUR. The U.S. interest rate is 2%, and the Eurozone interest rate is 1.5%. (The interest rates are the same for lending and borrowing) a) Determine the amount in USD received using a forward market hedge. b) Determine the amount in USD received using a money market hedge. **OR** Explain the Concept of Hedging in International Finance and Compare Different Hedging Techniques.	**15**	**CO4**