Seat No: ______________ **Enrollment No: ______________**

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
MBA Winter 2019 - 20 Examination

Semester: 3 **Date: 4/12/201**
Subject Code: 06201203 **Time: 10:30am to 1:00pm**
Subject Name: International Finance **Total Marks: 60**

Instructions
1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as Directed.

A).Multiple choice type questions/Fill in the blanks. (Each of 1 mark) **(05)**

1. A forward rate agreement is:
   a) A contract to pay or receive the difference between a fixed rate and the borrowing rate at a particular point in the future
   b) A contract that covers an increase in interest charges
   c) An agreement to borrow in the future at a fixed rate from a lender
   d) A contract so that the company gains if interest rates go down

2. If Spot USD 1 = Rs.68.4000/4200. Then at what exchange rate you can sell dollar?
   a) 68.42
   b) 68.40
   c) 68.8200
   d) 68.0200

3. Interest rate in USA is 6% and in India it is 4%. In the foreign exchange market
   a) Dollar will be quoted at a premium of 2% per annum
   b) Rupee will depreciate by 2% for in year
   c) Dollar will be quoted at a discount of 2% per annum
   d) No effect on the exchange rate

4. Pegging the value of a currency can be done by
   a) Pegging to a major currency
   b) Pegging to SDR
   c) Pegging to a basket of currencies
   d) Any of the above

5. The current account of balance of payment does not include
   a) Trade in goods
   b) Trade in Services
   c) Income on investments
   d) None of the above

B). Define the following. (Each of 1 mark) **(05)**

1. TT Buying Rate
2. Forward Market Hedge
3. Bill of Lading
4. Covered Interest Arbitrage
5. Fisher Effect

C).Direct questions. (Each of 1 mark) **(05)**

1.SDR
2. Who are the market participants in the foreign exchange market?
3. Describe the differences between foreign bonds and Eurobonds
4. List out the Factors Determining Spot Exchange Rates
5. What is certificate of Origin

Q.2 Answer the following questions.

A). What is the meaning of International Finance? How it differs from domestic Finance? **(07)**

B). On the 15th September SBI bank received a mail transfer from it NEW York correspondent for USD 5,00,000 payable to its customer. Its account with the correspondent bank has been credited with the amount of the mail transfer in reimbursement.

Assuming Rupee/USD are quoted in the local interbank market as under

Spot USD 1 = Rs. 69.2500/2700 **(08)**

Spot/October 2200/2300

Calculate the exchange rate and the rupee amount payable to the customer bearing in mind that

1. The bank requires an exchange margin of 0.08% to be loaded in the rate
2. Rupee equivalent should be nearest to the whole rupee.

Q.3 Answer the following questions.

A). Discuss the criteria for a 'good' international monetary system. **(07)**

B). Explain the purchasing power parity, both the absolute and relative versions. What causes the deviations from the purchasing power parity? **(08)**

Q.4 Attempt any two questions. **(Each of 7.5 mark)** **(15)**

1. List out the documents used in foreign trade. Explain the bill of exchange in detail.

2. The following rates are quoted in the market

USD 1= 46.50 Rs.

USD 1 = 1.5030 CHF

CHF 1 = 30.90 Rs.

Show how you can make triangular arbitrage profit by trading at these rates. If you are trading with Rs. 10 lakhs, what will be your arbitrage profit?

3. Write a short not on Letter of Credit

4. Explain the internalization theory of FDI. What are the strength and weakness of the theory?