

**GUJARAT TECHNOLOGICAL UNIVERSITY****MBA - SEMESTER– III EXAMINATION – WINTER 2019****Subject Code: 3539225****Date:07-12-2019****Subject Name: International Finance****Time: 10:30 AM TO 1.30 PM****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

**Q.1** Explain the following: **14**

- (a) Gresham's Law
- (b) SDR
- (c) Bid Ask Spread
- (d) Types of exchange rates quotations.
- (e) Purchasing Power Parity
- (f) American Depository Receipts
- (g) Arbitrage

**Q.2 (a)** Explain how a country can run an overall balance of payments deficit or surplus. Why would it be useful to examine a country's balance of payments data? **07****(b)** Discuss the implications of the interest rate parity for the exchange rate determination. **07****OR****(b)** What do you mean by Forward Contract? Describe its major benefits **07****Q.3 (a)** What are multinational corporations (MNCs) and what economic roles do they play? **07****(b)** The current spot exchange rate is \$1.55/£ and the three-month forward rate is \$1.50/£. Based on your analysis of the exchange rate, you are pretty confident that the spot exchange rate will be \$1.52/£ in three months. Assume that you would like to buy or sell £1,000,000. **07**

a. What actions do you need to take to speculate in the forward market? What is the expected dollar profit from speculation?

b. What would be your speculative profit in dollar terms if the spot exchange rate actually turns out to be \$1.46/£.

**OR****Q.3 (a)** Explain any two F Group of Inco terms. **07****(b)** Suppose that the current spot exchange rate is €1.06/\$ and the three-month forward exchange rate is €1.02/\$. The three-month interest rate is 5.6 percent per annum in the United States and 5.40 percent per annum in France. Assume that you can borrow up to \$1,000,000 or €1,060,000. **07**

Show how to realize a certain profit via covered interest arbitrage, assuming that you want to realize profit in terms of U.S. dollars. .

**Q.4 (a)** Briefly discuss the various types of international banking offices. **07****(b)** Explain the mechanism of letter of credit with the help of an example. **07****OR**

- Q.4 (a)** Briefly define each of the major types of international bond market instruments, noting their distinguishing characteristics. **07**
- (b)** Explain the benefits of Letter of Credit to Importers as well as exporters **07**

**Q.5**

**CASE STUDY:**

**EFFICIENT FUNDS FLOW AT EASTERN TRADING COMPANY**

The Eastern Trading Company of Singapore purchases spices in bulk from around the world, packages them into consumer-size quantities, and sells them through sales affiliates in Hong Kong, the United Kingdom, and the United States. For a recent month, the following payments matrix of interaffiliate cash flows, stated in Singapore dollars, was forecasted.

Eastern Trading Company Payments Matrix (\$S000)					
Disbursements					
<u>Receipts</u>	<u>Singapore</u>	<u>Hong Kong</u>	<u>U.K.</u>	<u>U.S.</u>	<u>Total Receipts</u>
Singapore	--	40	75	55	170
Hong Kong	8	--	--	22	30
U.K.	15	--	--	17	32
U.S.	11	25	9	--	45
Total disbursements	34	65	84	94	277

- (a)** Show how Eastern Trading can use multilateral netting to minimize the foreign exchange transactions necessary to settle interaffiliate payments. **07**
- (b)** Explain in detail the concept of transfer pricing in International Cash Management **07**

**OR**

- Q.5 (a)** Describe the Bretten Woods regime. Explain the role of WTO in International trade. **07**
- (b)** Explain the role of Export Import Bank of India in promoting International trade **07**

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