

Seat No.: \_\_\_\_\_

Enrolment No. \_\_\_\_\_

# GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER-III • EXAMINATION – WINTER 2013

**Subject Code: 2830502**

**Date: 20-12-2013**

**Subject Name: International Finance (IF)**

**Time: 14:30 pm – 17:30 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** (A) What is Exchange Rate? Explain the merits and demerits of fixed and flexible exchange rate. **07**  
(B) What is the meaning of International Finance? How it differs from domestic finance? **07**
- Q: 2** (A) What is BOP? Comment on India's BOP. **07**  
(B) Explain the growth and history of Exchange rate system **07**  
**OR**  
(B) Why International Portfolio Investment is popular? Explain the risk reduction through international diversification. **07**
- Q:3** (A) How companies can manage operating exposure? **07**  
(B) Explain international parity relationship among exchange rate, interest rate and inflation rate with diagram **07**  
**OR**  
(A) What do you mean by Hedge? Discuss Forward Market Hedge and Money Market Hedge for hedging transaction exposure. **07**  
(B) What is Exposure? Broadly, Explain the three different types of Exposure in International Business **07**
- Q:4** (A) What is Letter of Credit? Explain its mechanism with diagram. **07**  
(B) Explain the TT and Bill Buying rates and Selling rates. **07**  
**OR**  
(A) What is INCOTERMS? Explain any three INCOTERMS of your choice. **07**  
(B) Explain the term "FDI" and discuss its advantages and disadvantages. Also narrate the importance of political risk analysis in FDI **07**
- Q:5** (A) The consumer price index in India rose from 200 to 216 over the period of 1 January to 31 December. And in same time frame in US CPI has increased from 100 to 105. The exchange rate of USD was 44 INR on 1 January. What should be the exchange rate between USD and INR on 31 December? **07**  
(B) The USD is quoted at AUD 1.1197/2135 and the GBP is quoted at AUD 2.1920/2500. What is the direct quote for USD against GBP and GBP against USD? **07**  
**OR**  
(A) The spot rate of Singapore dollar is the US is USD 0.64 and that of the INR is USD 0.0224. What is the exchange rate of SGD in India? If the SGD is quoted in India at 29 INR, How can an arbitrage make a profit in this situation with 5 million INR **07**

- (B)** A firm in India has purchased goods for USD 1 million in the US, payable in three months. The firm has enough cash at its bank in Mumbai, which pays 5% per annum. Currently the spot exchange rate is INR 45 for USD and the three month forward rate is INR 44.5. In the US the money market interest rate is 6% per annum. There are two ways of payment. **07**
1. Keep the funds at its bank in Mumbai and buy USD 1 million forward
  2. Buy a certain USD amount today and invest in US for three months so that maturity value becomes USD 1 million.
- Which method should the firm prefer and why?

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