



Name:
Enrolment No:

End Semester Examination, December 2024

Course: International Financial Management
Program: BBA CORE (FIN) B1
Course Code: FINC3051P

Semester: V
Time: 03 Hrs.
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 term "spread" in forex trading refers to: A) The difference between various currency pairs B) The difference between bid and ask prices C) The volatility of a currency over time D) Total transaction volume in the market	2	CO1
1.2	In a forward contract, the buyer agrees to: A) Purchase the asset at the spot price on the maturity date B) Purchase the asset at a rate determined today for future delivery C) Exchange currencies at the market rate today D) Sell assets in futures markets	2	CO1
1.3	When engaging in triangular arbitrage, which of the following steps is usually taken first? A) Buy a currency at the lowest rate B) Sell a currency for a higher-valued currency C) Identify discrepancies in cross rates D) Convert profits to local currency	2	CO1
1.4	The risk that a firm's reported financial statements will be affected by changes in exchange rates is known as: A) Transaction exposure B) Economic exposure C) Translation exposure D) Political risk	2	CO1

1.5	Eurocurrency is best defined as: A) Currency traded in Europe B) Any currency that is deposited in banks outside its country C) Currency used within the Eurozone D) Currency supported by European banks	2	CO1
1.6	One challenge in transferring funds from subsidiaries to parents can be: A) Currency appreciation of the subsidiary's currency. B) Host country regulations and taxes. C) The ability of the parent to pay dividends. D) The performance of the global stock market.	2	CO1
1.7	The term 'subsidiary' best describes: A) An independent business without any oversight. B) A business entity controlled by another (parent) company. C) A temporary project based in a foreign country. D) A concept exclusive to domestic markets.	2	CO1
1.8	In capital budgeting, a country risk premium is most likely: A) Added to the cash inflows from the project. B) Subtracted from the discount rate. C) Added to the discount rate. D) Incorporated in tax calculations.	2	CO1
1.9	An increase in bid-ask spread typically indicates what about market conditions? A) Increased liquidity B) Decreased liquidity C) Higher trading volume D) Improved price stability	2	CO1
1.10	What is a money market hedge primarily used for? A) Speculating on currency movements B) Hedging against currency risk C) Maximizing interest income D) Investing in foreign securities	2	CO1
SECTION B 4Qx5M= 20 Marks			
Q			
2.1	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 £ 0.63/\$. According to the purchasing Power parity, is the	5	CO2

	British pound <u>overvalued</u> or <u>undervalued</u> against the US dollar? Show calculations.		
2.2	You can exchange \$1 for either 0.7787 Euros or 0.5335 British pounds. What is the cross rate between the pound and the euro?	5	CO2
2.3	The 1-year interest rate in the U.S. is 6%, and in the Eurozone, it is 2%. The current spot exchange rate (USD/EUR) is 0.9450. What is the 1-year forward exchange rate that eliminates the arbitrage opportunity?	5	CO2
2.4	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

SECTION-C
3Qx10M=30 Marks

Q			
3.1	Exchange Rates: <ul style="list-style-type: none"> • London: EUR/USD = 1.2000 - 1.2050 • New York: EUR/USD = 1.2020 - 1.2080 Is there a locational arbitrage opportunity if you start with €10,000? How much profit can be made? OR What are the key challenges in international capital budgeting?	10	CO3
3.2	You have \$10,000. The following exchange rates are given: <ul style="list-style-type: none"> • USD / EUR = 0.90 • EUR / GBP = 0.80 • GBP / USD = 1.25 Is there an arbitrage opportunity? If so, how much profit can you make?	10	CO3
3.3	How does interest rate parity explain exchange rate movements?	10	CO3

SECTION-D
2Qx15M= 30 Marks

Q			
4.1	1. ABC Manufacturing intends to invest €4 million in a facility in Spain. The expected cash flows in euros are: <ul style="list-style-type: none"> • Year 1: €1 million • Year 2: €1.2 million • Year 3: €1.4 million 	15	CO4

	<ul style="list-style-type: none"> • Year 4: €1.6 million • Year 5: €1.8 million <p>Currently, 1 USD = €0.85, but it is expected that the euro will appreciate by 4% annually. The required rate of return for this project is 9%.</p> <p>a) Calculate cash flows in USD after adjusting for the expected appreciation of the euro.</p> <p>b) Determine the NPV of the project.</p>		
4.2	<p>A US company has to pay CAD 2 million that is due in 12 months. The current exchange rate is 1 USD = CAD 1.25. The forward exchange rate for 12 months is 1 USD = CAD 1.20. The Canadian interest rate is 3%, and the U.S. interest rate is 2%. (The interest rates are the same for lending and borrowing)</p> <p>a) Determine the amount in USD to be paid using a forward market hedge.</p> <p>b) Determine the amount in USD to be paid using a money market hedge.</p> <p>OR</p> <p>Explain the eurocurrency market and its significance in international finance. How does it function, and what are the implications of eurocurrency deposits for interest rates and financial intermediation?</p>	15	CO4