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

End Semester Examination, May 2025

Course: International Finance and Risk Management **Semester: IV**
Program: MBA-General **Time: 03 Hrs.**
Course Code: FINC8011 **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 a currency at the spot price on the maturity date B) Purchase a currency at a rate determined today for future delivery C) Exchange currencies at the market rate today D) Sell currencies in futures markets	**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? A) Interest Rate Parity B) Purchasing Power Parity C) Fisher Effect	**2**	**CO1**

	D) International Fisher Effect		
1.5	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**
1.6	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	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**
1.10	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	Which of the following are Eurodollars and which are not Eurodollars? Why?	**5**	**CO2**

	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.		
2.2	You can exchange $1 for either 0.7787 Euros or 0.6705 British pounds. What is the cross rate between the pound and the euro?	**5**	**CO2**
2.3	Assume that a Big Mac hamburger is selling for £2.25 in the United Kingdom, the same hamburger is selling for $3.25 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? Explain and 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 (GBP/USD) is 1.3450. 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 €1 for 165 JPY or $1.1520 in Frankfurt. In Tokyo, the exchange rate is JPY1 = $ 0.0065. If you have USD 100,000, how much profit can you earn using triangle arbitrage? Show calculations and explain.	**10**	**CO3**
3.2	Explain the concept of interest rate parity (IRP). How does IRP establish a relationship between interest rates and spot and forward exchange rates? Discuss both covered and uncovered interest rate parity with relevant examples.	**10**	**CO3**
3.3	Define transaction exposure and discuss how it affects multinational corporations (MNCs). What strategies can firms use to manage transaction exposure? **OR** Exchange Rates: • New York: AUD/USD = 0.7330 - 0.7350 • Sydney: AUD/USD = 0.7310 - 0.7320 Is there a locational arbitrage opportunity if you start with AUD 100,000? How much profit can be made? Show calculations and explain.	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
Q			
4.1	A US multinational, XYZ Corp is considering investing $2 million to establish a production facility in Argentina. The expected cash	**15**	**CO4**

<table>
<tr><td></td><td>inflows over the next 5 years in Argentine pesos (ARS) are as follows:

Year 1 — 800 million ARS
Year 2 — 900 million ARS
Year 3 — 950 million ARS
Year 4 — 800 million ARS
Year 5 — 700 million ARS

The current exchange rate is 1 USD = 1100 ARS. However, it is expected that the ARS will depreciate by 5% each year against the USD.
All the cash flows are after tax cash flows which are free of any withholding tax and are completely convertible to USD and can be repatriated to the parent company. The project has no salvage value.
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%.
OR
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?</td><td></td><td></td></tr>
<tr><td>4.2</td><td>A US company has to pay CAD 2 million l 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 5%, and the U.S. interest rate is 3%. (The interest rates are the same for lending and borrowing)
a) Determine the amount in USD to be paid using a forward market hedge.
b) Determine the amount in USD to be paid using a money market hedge.
OR
Discuss the various derivative instruments used to hedge exposure in international finance. How do options, forwards, and swaps work? Provide examples of how firms utilize these derivatives for risk management.</td><td>15</td><td>CO4</td></tr>
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