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

UPES

End Semester Examination, May 2025

Course: International Finance **Semester: II**
Program: BBA LL.B (Hons.) **Time : 03 hrs.**
Course Code: CLNL1039 **Max. Marks: 100**

Instructions:

SECTION A
(5Qx2M=10Marks)

S. No.		Marks	CO
Q 1	What is Purchasing Power Parity (PPP)?	**2**	**CO1**
Q2	Write any three functions of the Foreign Exchange Market.	**2**	**CO1**
Q3	Define Special Drawing Rights (SDR).	**2**	**CO1**
Q4	Explain two features of international finance.	**2**	**CO2**
Q5	State the difference between Bid Rate and Ask Rate in derivative market.	**2**	**CO1**

SECTION B
(4Qx5M= 20 Marks)

Q 6	Differentiate between futures and forward.	**5**	**CO3**
Q 7	Suppose you are a resident of India, and you have $100 available for investment for 1 year. The following information is available: - Interest rate in the United States (foreign) = 2% Interest rate in India (domestic) = 6% Spot exchange rate = ₹80/USD 1-year forward exchange rate = ₹82/USD Verify Interest Rate Parity Theory condition	**5**	**CO4**
Q 8	How do conflict of law impact cross-border financial transaction.	**5**	**CO2**
Q 9	What are the main functions of the World Bank and the IMF?	**5**	**CO1**

SECTION-C
(2Qx10M=20 Marks)

Q 10.	You are comparing two mutually exclusive projects:	**10**	**CO4**

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<table>
<tr><th>Year</th><th>Project A (₹)</th><th>Project B (₹)</th></tr>
<tr><td>0</td><td>-50,000</td><td>-50,000</td></tr>
<tr><td>1</td><td>20,000</td><td>10,000</td></tr>
<tr><td>2</td><td>20,000</td><td>15,000</td></tr>
<tr><td>3</td><td>20,000</td><td>20,000</td></tr>
<tr><td>4</td><td>10,000</td><td>25,000</td></tr>
<tr><td>5</td><td>5,000</td><td>30,000</td></tr>
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Discount rate: 10%
Required:
1. Calculate NPV of both projects
2. Calculate Profitability Index of both projects
3. Recommend which project should be chosen
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<td>Q 11.</td>
<td>Using a real-world example, demonstrate how foreign direct investment (FDI) influences the overall balance of payments position of a developing country</td>
<td>10</td>
<td>CO3</td>
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<td colspan="4">SECTION-D
(2Qx25M=50 Marks)</td>
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<td>Q 12</td>
<td>A multinational company, Tata Motors Ltd., expects to receive €5 million in six months from its European operations. The company is concerned about potential fluctuations in the EUR/INR exchange rate during this period. The finance manager must choose between using a forward contract or purchasing a currency option to manage the foreign exchange risk.

Evaluate the effectiveness of using a forward contract versus a currency option for Tata Motors Ltd. in this situation. Considering the company's risk tolerance and potential market movements, which strategy would you recommend and why?</td>
<td>25</td>
<td>CO4</td>
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<td>Q 13</td>
<td>a) Based on the following data, calculate one, two, three-month forward USD/INR rates (15 Marks)
<table>
<tr><td>Maturity</td><td>USD/INR</td></tr>
<tr><td>Spot</td><td>74.0625/675</td></tr>
<tr><td>1 month forward point</td><td>850/900</td></tr>
<tr><td>2 month forward point</td><td>1875/1975</td></tr>
<tr><td>3 month forward point</td><td>3025/3225</td></tr>
</table>
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<td>25</td>
<td>CO4</td>
</tr>
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	b) According to Purchasing Power Parity Theory, how should the exchange rate adjust when there is a difference in inflation rates between two countries? (10 Marks)		