Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
Online End Semester Examination, December 2020

Course: International Financial Management **Semester: III**
Program: MBA (ET) **Time 03 hrs.**
Course Code: FINC 8003 **Max. Marks: 100**

SECTION A

1. **Each Question will carry 5 Marks**
2. **Instruction: Select the correct answer(s)**

S. No.	**Question**	**CO**
Q 1	Which of the following statements is not a correct explanation of the capital asset pricing model? **a)** Beta gives a measure of the extent of market related risks which are non-diversifiable **b)** When beta value is 1.0, the investment is considered to be of normal risk **c)** The expected return on an investment with a beta value of 2.0 is twice as high as the market rate of return **d)** The expected return from an investment with negative beta would be less than the risk-free rate of return.	**CO1**
Q2	Which of the following examples definitely illustrates a depreciation of the U.S. dollar? a) The dollar exchanges for 1 pound and then exchanges for 1.2 pounds. b) The dollar exchanges for 250 yen and then exchanges for 275 francs. c) The dollar exchanges for 100 francs and then exchanges for 120 yen. d) The dollar exchanges for 120 francs and then exchanges for 100 francs	**CO1**
Q3	Which of the following is true of foreign exchange markets? a) The futures market is mainly used by hedgers while the forward market is mainly used for speculating. b) The futures market and the forward market are mainly used for hedging. c) The futures market is mainly used by speculators while the forward market is mainly used for hedging. d) The futures market and the forward market are mainly used for speculating.	**CO1**
Q4	If purchasing power parity were to hold even in the short run, then: a) real exchange rates should tend to decrease over time; b) quoted nominal exchange rates should be stable over time. c) real exchange rates should tend to increase over time; d) real exchange rates should be stable over time;	**CO1**

Q5	Interest Rate Parity (IRP) implies that: a) Interest rates should change by an equal amount but in the opposite direction to the difference in inflation rates between two countries b) The difference in interest rates in different currencies for securities of similar risk and maturity should be consistent with the forward rate discount or premium for the foreign currency c) The interest rates between two countries start in equilibrium, any change in the differential rate of inflation between the two countries tends to be offset over the long term by an equal but opposite change in the spot exchange rate d) In the long run real interest rate between two countries will be equal e) Nominal interest rates in each country are equal to the required real rate plus compensation for expected inflation	**CO1**
Q6	Arbitrageurs in foreign exchange markets: a) attempt to make profits by outguessing the market) b) make their profits through the spread between bid and offer rates of exchange) c) take advantage of the small inconsistencies that develop between markets) d) need foreign exchange in order to buy foreign goods)	**CO1**
	Section: B **Each Question Carries 10 marks**	
Q7	Differentiate between domestic and international financial management.	**CO2**

Q 8	Enumerate the transactions in a Foreign exchange market.	**CO2**
Q 9	Discuss the instruments of Money Market in India.	**CO3**
Q 10	Discuss the finance function and the role of capital market in supporting the finance function of an international business organization.	**CO3**
Q 11	What are the different types of International Financial Institutions and how are they different from each other?	**CO3**

Section C

1. **Question carries 20 Marks.**

Q12	Renewable energy trading Ltd for its project investments intends to raise 2500 crores from debt, preference, common equity and retained earnings with a volume of Rs 1000 crores, 600 crores, 500 crores and 400 crores respectively. The 6 year, 12% Preference equity has been planned to be issued with a face value of Rs 10 at a discount of 10%. The flotation cost is 5% of the face value. The preference equity is planned to be redeemed with a premium of 20% at the end of the maturity period. The applicable tax rate is 40%. The company intends to raise the debt by issuing 16%, 5 year redeemable debenture to be redeemed at a premium of 20% at the end of the maturity period. The face value of the debenture is Rs100 and it is intended to be issued at a discount of 12% and a flotation cost of 5% on realized value. The applicable tax rate for debt is 20%. For the estimation of the cost of equity the company intends to use the market price of the share by implying CAPM model. The risk free rate of return is 10%, the market rate of return is 32% and the risk coefficient of the share is 20%. A. Calculate the Weighted Average cost of Capital for the firm B. Suggest whether the company should accept the proposal of the merchant bankers if the expected market return on the project is 30%.	**CO4**