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UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2017

Program: BBA LLB	**Semester – VII**
Subject (Course): International Finance & Risk Management	**Max. Marks : 100**
Course Code : LLBL452	**Duration : 3 Hrs**
No. of page/s: 4	

Section A- ANY TEN (10x1mark=10 marks)

Q1. Define systematic risk.

Q2. What is a Futures contract ?

Q3. What is MBS ?

Q4. What is hedging ?

Q5. Define a portfolio ?

Q6. Define ADR.

Q7. Explain Yankee bonds.

Q8. What is FDI ?

Q9. What are floating rate notes ?

Q10. State two key functions of IMF

Q11. What is Hymer Theory of FDI ?

Q12. What is direct quote and indirect quote.

Section B –(2 x 10marks =20 marks)

Q1. The exports of goods of country ABC 1545 USDMn. And imports amount to 1305 USDMn. The exports of services and imports of services 490 and 365 USD Mn. Short term Investment income receipts for the country ABC are 410 USD Mn and short term investment income payments 525 USD Mn. Also the FDI done by country ABC people abroad is 220 USD Mn and also ABC people did huge portfolio investments abroad amounting to 95USD Mn. Errors and omissions amount to negative of 30USDmn. You are required to calccualte (1) BoT – Visibles

(2) BoT – Invisibles (3) Current Account Net Balance (4) Capital and Financial account balance (5) Comment of overall BOP position of country ABC.

Q2. (a) Inflation rates in UK & India are respectively 3 % & 6% per annum. What is expected exchange rate after one year, if it was Rs 78/pd at the beginning of the year. (PPP Theory) (b) Also what will be interest rates in India if the interest rate in UK is 4% and the exchange rates are defined as above. (IFE Theory)

Section C – ATTEMPT ANY FIVE ONLY (5x 4marks = 20 marks)

Q1. Many Indian Bluechip companies have ADR and GDR. Explain

Q2. Multilateral development banks have helped sustainable growth for many countries. Explain.

Q3. Companies now follow polycentric and geocentric approach to international business. Elaborate

Q4. Product life cycle theory of FDI is more acceptable in todays scenario. Explain.

Q5. The capital flows follow International Fisher Effect. How

Q6. OLI paradigm is explained well by the Eclectic Theory. How ?

Section D – Total 50 marks

Case Study 1

The global financial crisis entered a new phase

Due to the economic recession which started in 2008, several members of the European Union became historically known as PIIGS. These states include Portugal, Italy, Ireland, Greece and Spain and if combined together, they form the acronym PIIGS. The reason why these countries were grouped together is the substantial instability of their economies, which was an evident problem in 2009. The reason why the five countries gained popularity is a serious concern within the EU. The latter country was involved in a controversial affair after allegedly falsifying its public financial data. In the year 2010, it was evident that the five states were in need of corrective action in order to regain their former financial stability. Because of the dirty farm animal associated with the acronym, several country leaders from the financially troubled countries have voiced out disagreement with the use of the term. However, there are quite a number of reporters and columnists who still refer to it when talking about the widespread economic crisis within the European Union. Although some prominent politicians have criticized the practice, the use of the word is very hard to shake off. (Source: www.equiteis.com)

Q1. What type of sovereign risks and country risk analysis does the excerpt indicate ? (10m)

Case Study 2

The financial story. BMW Group, owner of the BMW, Mini and Rolls-Royce brands, has been based in Munich since its founding in 1916. But by 2011, only 17 per cent of the cars it sold were bought in Germany. In recent years, China has become BMW's fastest-growing market, accounting for 14 per cent of BMW's global sales volume in 2011. India, Russia and eastern Europe have also become key markets.

The challenge. Despite rising sales revenues, BMW was conscious that its profits were often severely eroded by changes in exchange rates. The company's own calculations in its annual reports suggest that the negative effect of exchange rates totalled €2.4bn between 2005 and 2009. BMW did not want to pass on its exchange rate costs to consumers through price increases. Its rival Porsche had done this at the end of the 1980s in the US and sales had plunged.

The strategy. BMW took a two-pronged approach to managing its foreign exchange exposure. (Source: https://www.ft.com/content/f21b3a92-f907-11e1-8d92-00144feabdc0)

Q1. What type of foreign excahnge exposures is BMW group facing ? (10m)

Q2. How these exposures could be managed in forex markets ? (5m)

Case Study 3

Digital India Campaign – An Initiative for Better Tomorrow

Digital India is a strong initiative towards electronic payments and cash reduction. The campaign launched by Indian Government is to make things convenient and easy for public by increasing connectivity of internet. It is promoted to help public by making things available electronically. This step is a major boost to enhance the technology curve and begins with plan of increasing internet connectivity even to the remote rural places of the country. The campaign was launched on 1st July, 2015 and ever since has progressed a lot in terms of empowerment. By creating a digital infrastructure it is meant to create a space where people have digital identity and facilitates the government services which include managing bank accounts, financial management, safe and secure transactions and cyberspace, education and distance learning. Read more (Source : https://www.iaspaper.net/digital-india-essay/)

Q1. Explain the electronic payments and settlements scenario in India (10m)

Case Study 4

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

(Source : https://www.ibef.org/economy/foreign-direct-investment.aspx)

Q1. What are various modes of Foreign direct investment in India ? (10m)

Q2. Mention the sector wise FDI limits for investments in India. (5m)

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Section A- (10x1mark=10 marks)

Q1. Define un-systematic risk.

Q2. What is FDI ?

Q3. What is a Euro Bond ?

Q4. What is a ask-bid price ?

Q5. What is spot contract ?

Q6. Define Arbitrage.

Q7. Explain forex spread with example.

Q8. What is BoP ?

Q9. What is a GDR ?

Q10. Give two functions of Worldbank ?

Q11. Name 3 modes of FDI.

Q12. What is a managed float ?

Section B –(2 x 10marks =20 marks)

Q1. (a) Inflation rates in UK & India are respectively 2 % & 6% per annum. What is expected exchange rate after one year, if it was Rs 85/pd at the beginning of the year as per the PPP Theory.
(b) Also what will be interest rates in India if the interest rate in UK is 4% and the exchange rates are defined as above as per the IFE Theory.

Q2. The Q1 -2009 exports of goods of country XYZ 1545 USDMn. And imports amount to 1305 USDMn. The exports of services and imports of services 490 and 365 USD Mn. Short term Investment income receipts for the country ABC are 410 USD Mn and short term investment income payments 525 USD Mn. Also the FDI done by country ABC people abroad is 220 USD Mn and also ABC people did huge portfolio investments abroad amounting to 95USD Mn.

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Section C – ATTEMPT ANY FIVE ONLY (5x 4marks = 20 marks)

Q1. Bond market development internationally is another source of financial innovation . Explain.

Q2. World bank and its subsidiaries initiate trade and finance globally. How

Q3. International business has different approaches, geocentric being most popular. Explain

Q4. Theory of one price is the oldest theory of exchange rate determination. Explain.

Q5. The INR is expected to depreciate in future so as an importer / exporter what strategy you would use and how?

Q6. Depository receipts are mode of now popular method of fund raising. Explain

Section D – Total 50 marks

Case Study 1

The global financial crisis entered a new phase

The European sovereign debt crisis!

The reason everyone is freaking out now is that while some eurozone countries are relatively sound from an economic standpoint, other countries are way over-leveraged. And the troubles of a few countries could end up affecting everyone, yoked together under one currency for the last decade -- even though their economies functioned according to different habits and enjoyed very different degrees of financial health. The possibility also looms that one or more countries will pull out of the eurozone -- the 17-nation bloc that use the euro currency, which has been around since 1999. Should any of the eurozone nations drop out of this group, it could lead to a rash of bank failures in Europe, and possibly in the United States as well. Under these circumstances, people and businesses who need money might not be able to get any. We'd be looking at depression for Europe and recession for the rest of the world. Some people argue that an orderly, controlled eurozone break-up would be a good thing for certain struggling debtor nations. Still, even this relatively benign scenario carries economic fallout for Europe and maybe beyond.

There's more to it than that, of course, but when people talk about the "crisis," what they're worried about is that a big, scary, flashpoint event will happen -- like one or more of the eurozone countries are causing investors to panic and triggering a massive banking shock. (Source : www.equites.com)

Q1. What type of financial crisis and sovereign risks does the excerpt indicate ? (10m)

Case Study 2

In most countries the Central Bank is generally the regulatory authority and is responsible for development of the National Payment System. In India, Reserve Bank of India is the regulatory authority and is in charge of driving the development of our National Payment and Settlement System. The highest policy making body on payment System in our country is the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a sub-committee of RBI and the regulation is done in accordance with the Payment and Settlement Systems Act, 2007 (PSS Act).
The Reserve Bank of India continually strives towards providing more secure, convenient and efficient payments systems in the country. RBI continuously works towards upgradation of the existing systems and pushes for innovation and development new ones, thus slowly and steadily revamping the payment and settlement facilities in India. (www.rbi.org.in)

Q1. What are various types of payments and settlements ssystems approved by RBI ? (10m)

Case Study 3

Small to Medium Businesses can often overlook the foreign exchange rate risks associated with foreign currency exposures. Currency volatility can be underestimated, as it is not always seen as one of the primary risks. The impact of overlooking foreign currency exposures, by not hedging, can have a significant negative effect on profits. For examples a small company is tendering for a local contract. All of the components for the tender were being imported and those costs were payable in USD. The company submitted their tender, which incorporated the cost of purchasing the USD. They would be notified in three months time if they were successful. They had no recourse to amend the contract cost for exchange rate fluctuations. This is a situation faced by many small to medium sized businesses all acros the globe everyday. Superficially the effect of the foreign exchange risk to the business may not appear to be of paramount importance. However when we take a closer look at the numbers, we can show that the risk and exposures is actually relatively significant.

(Source : https://anz.com.au/documents/FXOnline/SMBPaper4.pdf)

Q1. Explain the various risks and exposures of foreign exchange markets. (10m)

Q2. How can the companies reduce these risks ? (5m)

Case Study 4

India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top 10 attractive destinations for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. The measures taken by the Government are directed to open new sectors for foreign direct investment, increase the sectoral limit of existing sectors and simplifying other conditions of the FDI policy. FDI policy reforms are meant to provide ease of doing business and accelerate the pace of foreign investment in the country. (www.makeinindia.com)

Q1. Explain the recent policy measures in FDI under Make In India campaign. (5m)

Q2. What are the various theories of FDI ? (10m)