Name: **Enrolment No:**	

UPES

End Semester Examination, December 2025

Course: International Banking **Semester: 3**
Program: B.COM HONS **Time: 03 hrs.**
Course Code: FINC2046P **Max. Marks: 100**

Instructions: Attempt all questions

SECTION A
10Qx2M=20Marks

S. No.		**Marks**	**CO**
Q 1	Despite various reforms, a large part of the Indian Money Market remains unorganised, dominated by moneylenders and chit funds. Which structural measure would best reduce this dualism in the market? A. Deregulate interest rates B. Integrate rural banks with formal institutions C. Promote gold-based credit D. Stimulate employment	**2**	**CO1**
Q 2	Which instrument is commonly traded in the London Money Market? A. Treasury Bills B. Cryptocurrencies C. Agricultural bonds D. Life insurance policies	**2**	**CO1**
Q 3	Which of the following is a function of the Bank of England? A. Conducting foreign trade B. Acting as banker's bank C. Providing retail loans D. Managing insurance firms	**2**	**CO1**
Q 4	The foreign exchange market primarily facilitates: A. Trade unions B. Exchange of goods C. Currency conversion and hedging D. Insurance underwriting	**2**	**CO2**
Q 5	Which institution sets global banking standards? A. World Bank B. BIS	**2**	**CO2**

	C. IMF D. WTO		
Q 6	Nostro account refers to: A. Foreign bank's account with local bank B. Bank's account held in foreign currency abroad C. Customer savings account D. Central bank reserve account	**2**	**CO2**
Q 7	Vostro account is: A. Our account with foreign bank B. Their account with us C. Customer current account D. Offshore liability	**2**	**CO3**
Q 8	An offshore banking center is characterized by: A. Heavy taxation B. Strict domestic control C. Foreign currency operations D. Agricultural lending	**2**	**CO3**
Q 9	The term "LIBOR" historically referred to: A. Local Investment Banking Operation Rate B. London Interbank Offered Rate C. Liquid International Bond Operation Rate D. Large Institutional Banking Official Rate	**2**	**CO3**
Q 10	Which of the following is a function of international banks? A. Currency exchange B. International project financing C. Risk management services D. All of the above	**2**	**CO4**
SECTION B **4Qx5M= 20 Marks**			
Q 11	How has the EMU contributed to economic integration in Europe? How its functions are applicable to other developing nations.	**5**	**CO2**
Q 12	Explain how the organizational structure of the Federal Reserve System operates and how it maintains its independence while remaining accountable to the public and Congress.	**5**	**CO2**
Q 13	Define the concept of the "interest rate corridor" and discuss how central banks use it as a tool for conducting monetary policy.	**5**	**CO3**
Q 14	Critically examine the causes of underdevelopment in money markets in emerging economies. Suggest reforms to improve their functioning.	**5**	**CO4**
SECTION-C **3Qx10M=30 Marks**			

Q 15	Explain how the objectives and instruments of the Reserve Bank of India's monetary and credit policy are applied in trade activities. Also, analyze how these policies help in controlling inflation while promoting economic growth.	**10**	**CO3**
Q 16	Explain the concept of keiretsu and how it affects the Japanese banking system.	**10**	**CO3**
Q 17	Analyze the functions and organizational structure of the Asian Development Bank.	**10**	**CO4**
SECTION-D 2Qx15M= 30 Marks			
Q 18	A U.S. company expects to receive €1,000,000 from a European client in three months. Concerned about the possible depreciation of the euro against the U.S. dollar, the company decides to hedge this foreign exchange risk using currency futures. Explain how the company can use currency futures to hedge its exposure. Analyze how this strategy protects the company from adverse exchange rate movements.	**15**	**CO3**
Q 19	The sub-prime mortgage crisis originated in the United States in August 2007 and soon escalated into a global financial crisis due to the interconnected nature of international banking. Among the four types of mortgages in the US—Jumbo, Prime, Near-prime, and Sub-prime—the sub-prime category was extended to high-risk borrowers with poor credit histories, low incomes, and weak documentation. These risky loans surged dramatically, rising from 9% of securitised mortgages in 2001 to 40% by 2006. Lax lending standards, low down payments, and the rapid growth of adjustable-rate mortgages encouraged excessive borrowing. Instead of strengthening their capital base to manage rising risk, banks repackaged housing loans into collateralised debt obligations (CDOs) and sold them as marketable securities. These were rated favourably by credit agencies based on flawed assessments of repayment history and property values. Low interest rates further boosted housing demand, pushing US homeownership to a peak of 69.2% in 2004 and causing house prices to rise by 124% between 1997 and 2006. However, rising interest rates from 2004 led to falling home sales, excess housing supply, declining property values, and a sharp increase in defaults and foreclosures. As credit ratings were downgraded, sub-prime securities became illiquid. The crisis intensified when Bear Stearns' hedge funds collapsed, triggering panic across global financial markets and raising overnight interest rates worldwide. Major financial institutions failed or required bailouts, including Bear Stearns, Lehman Brothers, AIG, Fannie Mae, Freddie Mac, and Merrill Lynch. The crisis spread internationally, severely impacting the UK, where	**15**	**CO4**

	the Royal Bank of Scotland posted record losses. Governments intervened massively to stabilise financial systems, highlighting systemic failures in risk management, regulation, and global financial oversight. **Required:** 1. How did the transformation of high-risk sub-prime mortgages into complex financial instruments like CDOs expose the fundamental weaknesses of international banking regulation, and what lessons should global financial institutions draw to prevent a similar systemic crisis in the future? 2. How did the interconnectedness of global financial institutions transform a domestic housing crisis in the US into an international banking catastrophe, and what does this reveal about the vulnerabilities of modern global finance.		