SL No of QP 9854

Unique paper Code: 2923060048
Name of the Paper: International Finance
Name of the Course: BMS
Semester: VII
Duration: 3 hrs
Maximum Marks: 90

Answer **any five** questions. All questions carry equal marks (18 each). **The use of a Scientific calculator is allowed.**

Q1a. The following spot exchange rates are quoted in the inter-bank market:

USD/INR = 90.2040 /2130

EUR/USD = 1.1820/30

GBP/USD = 1.3430 /60

USD/JPY = 155.56/65

Calculate the bid and ask rates for GBP/INR; EUR/INR; and INR/JPY **6marks**

Q1b. Discuss the features of Global currency market and differentiate it from Domestic currency market. **6marks**

Q1c. What do you mean by De-dollarization? Explain with an example as evidence. **6marks**

Q2. An Indian importer has three months payable of USD 500,000. The USD/INR spot and forward rates available today in the market are as follows:

Spot: 90.10/15
1mf: 10/14
2mf: 15/20
3mf: 45/50
6mf: 13/10
The prevailing interest rates are as follows:
USD: 4% - 4.5%
INR: 6.25% - 6.75%
If you are expecting USD/INR Spot after 3 months 90.85/90 then suggest a rational strategy to the importers among the following:

a. No hedging and Forward hedging
b. Money market hedging
c. In the case of forward hedging, what will be the impact if the importer needs money at the end of 2nd month itself i.e. one month in advance? **Mention your assumptions (if any).**

6*3 = 18 marks

Q3a. The quotations available in the market are as follows:
USD/INR = 83.1750/60
GBP/USD=1.2990/96
EUR/USD=1.0820/26
EUR/INR= 90.4550/60
GBP/INR = 105.4230/40
Calculate all possible (at least two) arbitrage opportunities and show the cash flow.

6+6=12marks

Q3b. Briefly explain Swap-in and Forward–forward–in with the help of an illustration.
6marks

Q4a. Given the following information:

Spot rate (USD/INR) = 89.90

1-year interest rate in India = 6.8% p.a.

1-year interest rate in the USA = 4.2% p.a.

Using the **Interest Rate Parity theory**, calculate the **1-year forward rate.** Comment on the movement of the INR. **9marks**

Q4b. What do you mean by Purchasing Power Parity? Explain its relevance in forecasting the exchange rate with the help of an example. **9marks**

Q5a. Show the possible netting in the following case: **6 marks**

Argentina to Bharat: \$250m; Argentina to China: \$50m
Argentina to Denmark: \$250m; Bharat to Argentina: \$300m
Bharat to China: \$150m; Bharat to Denmark: \$300m
China to Argentina: \$270m; China to Bharat: \$230m
China to Denmark: \$400m; Denmark to Argentina: \$600m
Denmark to Bharat: \$500m; Denmark to China: \$300m

Q5b. A portfolio manager is considering the benefits of increasing his diversification by investing overseas. He can purchase shares in individual country funds with the following characteristics:

	India (%)	**UK (%)**	**Spain (%)**
Expected return	15	12	5
Standard deviation of return	10	9	4
Correlation with India	1.0	0.33	0.06

What is the expected return and standard deviation of return of a portfolio with 25 percent invested in the United Kingdom, 25 percent in Spain and 50 percent in the India? Assume correlation between UK and Spain is 0.67
6 marks

Q5c. Explain Adjusted Present Value method for International Project appraisal? **6 marks**

Q6a. Mart India Public Ltd has its wholly owned subsidiary operating in Brazil where it maintains its account in Brazilian Real (R\$). At the end of the financial year 2024-25 the balance sheet and income statement presented in R\$ are as follows. Translate the balance sheet and Income statement in Indian Rupee using Temporal and Current Rate method. **6+6=12 marks**

Balance Sheet (R\$ million)

Cash	200
Inventory	300

Net Fixed Assets	3500
Total Assets	**4000**
Current liabilities	400
Long-term liabilities	1150
Common Stock	2100
Retained Earnings	350
Total Liabilities & Equities	**4000**

Income Statement (R$ million)

Sales	3000
COGS	1900
Depreciation	600
Net Operating Income	500
Income Tax (30%)	150
PAT	350
Foreign Exchange gain & losses	
Net income	350
Dividend	0
Addition to Retained Earnings	350

The Exchange rate of R$/INR was 16.00 in the beginning of year which changed to 17.00 by the end of the year. The realization value of inventory was expected to be R$ 350.

Q6b. Briefly explain the methods of managing Transaction Exposure. **6marks**

Q7. Write short notes on the following: **6*3 = 18 marks**

a. Crypto Assets
b. Current Account Deficit
c. Country Risk
d. Hecksher- Ohline model
e. Economic Exposure
f. Import Substitution