[This question paper contains 4 printed pages.]

Your Roll No...............

Sr. No. of Question Paper : 1035 **L**

Unique Paper Code : 2922073601

Name of the Paper : International Finance

Name of the Course : **BBA FIA**

Semester : VI

Duration : 3 Hours Maximum Marks : 90

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt only **five** questions.
3. Part of the questions to be attempted together.
4. **All** questions are of 18 marks each.

Q1. Based on given information and theoretical concepts answer the questions at the end:

In early 2026, escalating tensions between Iran, Israel, and the United States led to a full-scale geopolitical conflict in West Asia. The disruption of key oil supply routes, particularly the Strait of Hormuz—through which a significant share of global crude oil flows—triggered a sharp rise in global oil prices and financial market volatility. Crude oil prices surged beyond $100 per barrel, increasing inflationary pressures across oil-importing countries like India. At the same time, investors shifted towards safe-haven assets such as the US dollar, leading to capital outflows from emerging markets.

India experienced a depreciation of its currency, with the rupee falling to a one-month low amid rising oil import bills and global uncertainty. Bond yields also increased as inflation expectations rose and monetary tightening risks intensified.

Central banks across economies faced a policy dilemma: balancing inflation control with growth concerns. Money and foreign exchange markets reflected heightened volatility, changing interest rate expectations, and shifting capital flows.

a. Explain how geopolitical conflicts affect exchange rates using appropriate theories (PPP/IRP).
b. Evaluate how capital flows respond to global uncertainty and "risk-off" sentiment.
c. Analyze the transmission mechanism of oil price shocks to inflation and interest rates.

6 + 6+ 6 = 18 marks

Q2a. The present prevailing interest rates and exchange rates are as follows:

India: 7%-7.5%; USA: 4% -4.25%; UK: 5% - 5.5%

Spot: ₹83/USD; Spot: $1.25/GBP; Spot: ₹104/GBP

One-yr Forward: ₹86/USD; One-yr Forward: ₹106.24/GBP

Identify all arbitrages and compute profit. **6+ 6 = 12 marks**

Q2b. Illustrate with the help of an example that how PPP can be used to forecast the exchange rate a year hence. **6 marks**

Q3a. An Indian importer has three months payable of GBP 120,000. The GBP/INR spot and forward rates available today in the market are as follows:

Spot: 124.4080/90

1mf: 10/14; 2mf: 15/20; 3mf: 25/30; 6mf: 13/10

The prevailing interest rates are as follows:

GBP: 4% - 4.5%; INR: 9% - 10%

If you are expecting GBP/INR Spot after 3 months 125.5510/20 then suggest rational strategy to the importers among the following:

i. No hedging
ii. Forward hedging
iii. Money market hedging **2 + 5+ 5 = 12 marks**

Q3b. What do you mean by competitive devaluation of currency? Explain the impacts of it on the economy. **6 marks**

Q4. An Indian exporting firm earns **annual revenues of $5 million** from the US market. Its costs are structured as follows:

- 40% of costs are **denominated in USD**
- 60% of costs are **denominated in INR**
- Total operating cost = ₹250 million

Current exchange rate = ₹90/USD. The firm expects the Indian Rupee to **appreciate to ₹85/USD** next year.

a. Calculate the firm's operating profit at the current exchange rate.
b. Calculate the operating profit after rupee appreciation.
c. Measure the firm's **economic exposure.**
d. Suggest the measures to hedge the economic exposure.

5 + 5 + 5 + 3 = 18 marks

Q5. Paasho Norway, the Norwegian subsidiary of a U.S. company, Paasho Inc., has the following balance sheet:

Assets (NKr thousands)		Liabilities (NKr thousands)	
Cash, marketable securities	7,000	Accounts payable	14,000
Accounts receivable	18,000	Short-term debt	8,000
Inventory	31,000	Long-term debt	45,000
Net fixed assets	63,000	Equity	52,000
	NKr119,000		NKr119,000

(a.) At the current spot rate of $0.14/NKr, calculate Paasho Norway's accounting exposure under the current/noncurrent, monetary/nonmonetary, temporal, and current rate methods.

(b.) Suppose the Norwegian krone depreciates to $0.11. Produce balance sheets for Paasho Norway at the new exchange rate under each of the four alternative translation methods viz.,

i.) Current/noncurrent rate and temporal methods

ii.) Monetary/nonmonetary method

iii.) Current rate method

(c.) Calculate the translation gains or losses associated with the NKr depreciation for each of the four methods. Relate these gains and losses to the exposure calculations performed in part (a) combined with the exchange rate change. Where would these translation gains or losses show up in the balance sheets prepared for part (b)?
4+10+4 = 18 Marks

Q6a. Indian company wants to invest in African country, Namibia. It evaluates the political risk using the following index:

Factor	Score (out of 10)
Government Stability	4
Law and order	5
Corruption level	3
Policy consistency	4
Internal Conflict	2

You need to calculate the overall political risk score and interpret the level of political risk.

9 marks

P.T.O.

Q6b. A subsidiary of Indian company in Denmark has current sales of €10,00,000. The firm's sales are expected to increase by €2,00,000 if credit sales are further extended. The profit margin is 20%. Extending credit sales will lead to additional bad debts of €25,000. You need to suggest whether the firm should extend credit. **9 marks**

Q7. Write Short notes on the followings: **6x3 = 18 Marks**

a. Euro Bond
b. H-O model of International Trade
c. Multilateral Netting
d. International Portfolio
e. GDR
f. Extension of Forward contract