ST. PHILOMENA'S COLLEGE (AUTONOMOUS), MYSORE			
PG DEPARTMENT OF COMMERCE			
QUESTION BANK {Revised Curriculum (LOCF) - 2020-22 Batch }			
SECOND YEAR- THIRD SEMESTER (2020-22 Batch)			
Sub: Code- C0530COURSE TITLE (PAPER TITLE): INTERNATIONAL FINANCIAL MANAGEMENT - -PAPER A QP Code: 83353			
UNIT	**Sl. No.**	**QUESTIONS**	**MARKS**
1	1.	Define international finance?	5
1	2.	Mention and explain the finance functions of MNCs?	5
1	3.	Why do countries indulge in international trade?	5
1	4.	Write a note on India's foreign trade trend.	5
1	5.	What do you understand by the cross-border financial flow?	5
1	6.	Briefly state the nature of financing decisions.	5
1	7.	Briefly explain the scope of international financial management	5
2	8.	Explain the benefits of appreciation of Indian Rupee	5
2	9.	Explain the demerits of appreciation of Indian Rupee	5
2	10.	Explain the benefits of depreciation of the Indian Rupee	5
2	11.	Explain the demerits of depreciation of the Indian Rupee	5
2	12.	Explain the concept of Bimetallism and the reason for the fall of bimetallism	5
2	13.	Explain currency pegging.	5
2	14.	Briefly explain Balance of Payment	5
2	15.	Explain the features of the Balance of Payment.	5
2	16.	Briefly explain Balance of Trade.	5
2	17.	Explain the economic transactions involved in the Balance of Payment.	5
2	18.	Find out Balance of Capital account, if: inflow of loans: $2,000; repayment of loans: $2,150; FDI inflow: $7,000; FDI outflow: $1,500; FIIs' investment in India: $500.	5
2	19.	Explain the components of a Capital Account.	5
2	20.	Explain the components of the Current account	5
2	21.	Define the financial market and its components.	5
2	22.	Write a note on the spot market.	5
2	23.	Briefly explain the importance of the foreign exchange market?	5
2	24.	Mention and explain the market participants.	5
2	25.	Mention the major currencies.	5
2	26.	Mention and explain the factors of fundamental analysis.	5
2	27.	Write a note on forwards and futures market	5
2	28.	Write a note on options.	5
2	29.	Explain the meaning of foreign exchange exposure.	5
2	30.	Explain the Real operating exposure.	5
3	31.	Explain Translation exposure.	5
3	32.	Explain the current rate method and monetary/non-monetary method of translation.	5
3	33.	Explain current/non-current method and temporal method of translation.	5
3	34.	How do you arrive at the amount of real operating exposure?	5
3	35.	Explain Netting with an example.	5
3	36.	Explain the money market hedge.	5
3	37.	Explain Leading and Lagging	5
4	38.	Explain hedging through currency options	5
4	39.	Explain Parallel loans in hedging foreign exchange risk.	5

<table>
<tr><td>4</td><td>40.</td><td>Explain Risk Sharing in hedging foreign exchange risk</td><td>5</td></tr>
<tr><td>4</td><td>41.</td><td>Explain foreign exchange hedging through currency futures</td><td>5</td></tr>
<tr><td>4</td><td>42.</td><td>A company expects cash flow from its new project to the extent of $5,000; $6,500 and $6,000 respectively during the first three years of its operation. However due to changes in exchange rate/inflation rate, the cash flow is affected and it will change to $4,000, $5,800, and $5,200. Find the magnitude of the possible real operating exposure during the initial year of operation assuming a discount rate of 10%.</td><td>5</td></tr>
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<tr><td>1</td><td>44.</td><td>Discuss the significance of international finance.</td><td>10</td></tr>
<tr><td>1</td><td>45.</td><td>How do companies draw up their financial plans?</td><td>10</td></tr>
<tr><td>1</td><td>46.</td><td>What has been the trend of global trade in the past five years? Discuss.</td><td>10</td></tr>
<tr><td>1</td><td>47.</td><td>Discuss the composition and trend of capital flow</td><td>10</td></tr>
<tr><td>2</td><td>48.</td><td>“Gold standard provided price stability besides automaticity in the exchange rate and BOP adjustment.“ Discuss.</td><td>10</td></tr>
<tr><td>2</td><td>49.</td><td>Explain the Bretton Wood system and the reason for its collapse</td><td>10</td></tr>
<tr><td>2</td><td>50.</td><td>Do you agree that the floating exchange rate regime is a better option than the fixed exchange rate regime? Justify your answer.</td><td>10</td></tr>
<tr><td>2</td><td>51.</td><td>Explain the broad options under the new exchange rate regime that was approved at the Jamaica meet in 1976.</td><td>10</td></tr>
<tr><td>2</td><td>52.</td><td>Calculate the Balance of Trade, the balance of the Current account, and the Balance of the capital account.
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<tr><td>2</td><td>53.</td><td>Find out
Balance of Trade and b.) Balance of current account, if : inflow on : account of services : $1,000; Outflow on account of services : $800; outflow of dividend, royalty: $1,100; inflow of dividend: $560 ; export of goods : $10,000; import of goods : $12,000; remittances: $1,200.</td><td>10</td></tr>
<tr><td>3</td><td>54.</td><td>Describe the functioning of a financial market.</td><td>10</td></tr>
<tr><td>3</td><td>55.</td><td>Explain the international financial market.</td><td>10</td></tr>
<tr><td>3</td><td>56.</td><td>Who are the main players of the foreign exchange market? Discuss each in detail.</td><td>10</td></tr>
<tr><td>3</td><td>57.</td><td>Explain the major participants in the spot exchange market</td><td>10</td></tr>
<tr><td>3</td><td>58.</td><td>Explain the benefits of trading foreign exchange</td><td>10</td></tr>
<tr><td>3</td><td>59.</td><td>Explain the foreign exchange risk categories.</td><td>10</td></tr>
<tr><td>4</td><td>60.</td><td>Explain Transaction exposure</td><td>10</td></tr>
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<tr><td>4</td><td>61.</td><td>Find out the transaction gain/loss based on the following data about India’s foreign trade.
<table>
<tr><th>Particulars</th><th>US $, million</th><th>Japanese Yen, million</th><th>British Pound, million</th></tr>
<tr><td>Import</td><td>1,250</td><td>650</td><td>800</td></tr>
<tr><td>Export</td><td>1,150</td><td>625</td><td>850</td></tr>
<tr><td>Pre-change rate</td><td>₹ 45/$</td><td>₹0.40/ Yen</td><td>₹ 70/ Pound</td></tr>
<tr><td>Post-change rate</td><td>₹ 47/$</td><td>₹0.41/Yen</td><td>₹68/ Pound</td></tr>
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<tr><th>Particulars</th><th>US $, million</th><th>Japanese Yen, million</th><th>British Pound, million</th></tr>
<tr><td>Import</td><td>1,2500</td><td>6,500</td><td>8,000</td></tr>
<tr><td>Export</td><td>1,1500</td><td>6,250</td><td>8,500</td></tr>
<tr><td>Pre-change rate</td><td>₹ 45/$</td><td>₹0.40/ Yen</td><td>₹ 70/ Pound</td></tr>
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<tr><td>4</td><td>63.</td><td>Do the different methods of translation arrive at different sizes of translation exposure? Explain.</td><td>10</td></tr>
<tr><td>4</td><td>64.</td><td>Find out the translation loss/gain based on the following data supplied by the Indian subsidiary to its parent unit in the USA.
<table>
<tr><th>Liabilities</th><th>Rs.(in million)</th><th>Assets</th><th>Rs.(in millions)</th></tr>
<tr><td>Current Liabilities</td><td>400</td><td>Cash</td><td>100</td></tr>
<tr><td>Share capital</td><td>1,000</td><td>Marketable securities</td><td>100</td></tr>
<tr><td>Bonds</td><td>600</td><td>Debtor</td><td>200</td></tr>
<tr><td>Retained Earnings</td><td>400</td><td>Inventory</td><td>300</td></tr>
<tr><td></td><td></td><td>Land</td><td>600</td></tr>
<tr><td></td><td></td><td>Plant & Machinery</td><td>800</td></tr>
<tr><td></td><td></td><td>Furniture</td><td>300</td></tr>
</table>
Historical rate = Rs.40/US $; Current rate = Rs.46/ US $</td><td>10</td></tr>
<tr><td>4</td><td>65.</td><td>Find out the translation loss/gain based on the following data supplied by the Indian subsidiary to its parent unit in the USA.
<table>
<tr><th>Liabilities</th><th>Rs.(in million)</th><th>Assets</th><th>Rs.(in millions)</th></tr>
<tr><td>Current Liabilities</td><td>4,000</td><td>Current assets</td><td>2,000</td></tr>
<tr><td>Share capital</td><td>2,000</td><td>Inventory(market value)</td><td>4,000</td></tr>
<tr><td>Long term debt</td><td>3,000</td><td>Fixed assets</td><td>4,000</td></tr>
<tr><td>Retained Earnings</td><td>2,000</td><td>Goodwill</td><td>1,000</td></tr>
</table>
Historical rate: Rs.30/ US$. Current rate: Rs.35/US$</td><td>10</td></tr>
<tr><td>4</td><td>66.</td><td>UK Exporter exported goods worth $350,000, Spot rate = $/ £ = 1.5865/ 1.5905
3 months’ forward rate = $/ £ = 1.6100/1.6140
Interest rate
<table>
<tr><th></th><th>Deposit</th><th>Loan</th></tr>
<tr><td>$</td><td>7%</td><td>9%</td></tr>
<tr><td>£</td><td>5%</td><td>8%</td></tr>
</table>
You are required to determine the net loss/gain that will result from a Money market hedge as compared to hedging through a forward exchange contract</td><td>10</td></tr>
</table>

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<tr><td>4</td><td>67.</td><td>Indian importer imported goods of $51 Lakh. Payable in 3 months, Spot rate ₹/$ = 40/42,3 months forward /$ = 42/45
Interest rates are as follows
<table><tr><td></td><td>Deposit</td><td>Borrow</td></tr><tr><td>$</td><td>8%</td><td>11%</td></tr><tr><td>₹</td><td>13%</td><td>16%</td></tr></table>You are required to determine the net loss/gain that will result from a Money market hedge as compared to hedging through a forward exchange contract</td><td>10</td></tr>
<tr><td>4</td><td>68.</td><td>Purchased asset on 01/07/2018 for $ 1,00,000
Amount to be settled on 31/12/2108
Interest rate prevailing: -
India: 10% - 12%
US: 5% - 6%
6 months' forward rate available on 01/07/2018 is: $1 = Rs.66.40 – Rs.67.60
Spot rate on 01/07/2018 is $ 1 = Rs.64 – Rs. 65
You are required to determine the net loss/gain that will result from a Money market hedge as compared to hedging through a forward exchange contract.</td><td>10</td></tr>
<tr><td>4</td><td>69.</td><td>Z ltd importing goods worth $ 2 million requires 90 days to make the payment. The overseas supplier has offered a 60-day interest-free credit period and additional credit for 30 days at an interest rate of 8% p.a.
The bankers of Z ltd offer a 30 days' loan at 10% p.a. and their quote for foreign exchange is as follows
Spot 1 USD = ₹ 56.50
60 days forward for 1$ = ₹57.10
90 days forward for 1 $ = ₹57.50
Evaluate: a.) Pay the supplier in 60days
b) Avail supplier's offer of 90 days credit.</td><td>10</td></tr>
<tr><td>4</td><td>70.</td><td>Explain the different strategies of hedging Real operating exposure</td><td>10</td></tr>
<tr><td>4</td><td>71.</td><td>Explain the method of managing translation exposure</td><td>10</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>4</td><td>72.</td><td>X Ltd acquired an asset for $63,000 with a credit period of 6 months. The spot rate on the date of purchase is Rs.64 per $. The company is willing to take a contract of currency futures for hedging its $ liability.
Following are the terms and conditions of $ futures contract:
• 6 months $ future price is Rs. 65 per $
• Contract size $10,000 per contract
• Margin to be deposited Rs. 12,000 per contract
For arranging the margin money, the company can borrow at 18% per annum for 6 months. The company can also enter into a forward exchange contract for buying $63,000 at a forward rate of Rs.65.35 per $.
After 6 months following information is obtained:
• The spot rate is Rs.66.40 per $
• Spot rate adopted by $ future market is Rs.66.25 per $
You are required to evaluate which of the following would have been the best course of action:
a.) No Hedging
b.) Using forward cover.
c.) Using Currency futures</td><td>15</td></tr>
<tr><td>4</td><td>73.</td><td>2. M/s Omega Electronic Ltd. exports air conditioners to Germany by importing all</td><td>15</td></tr>
</table>

the components from Singapore. The company is exporting 2,400 units at a price of Euro 500 per unit.

The cost of imported components is S$ 800 per unit. The other variables cost per unit isRs. 2,500. The cash flows in foreign currencies are due in six months.

The current exchange rates are as follows:

₹/€ 51.50

₹/S$ 27.25

After six months the exchange rates turn out as follows:

₹/€ 52.00

₹/S$ 27.75

a.) Calculate loss/gain due to transaction exposure.

b.) Based on the following additional information calculate the loss/gain due to transaction and operating exposure. If

- The contracted price of air conditioners is revised from **€ 500 to Rs. 25,000.**
- The price elasticity of demand is estimated to be 1.5
- Payments and receipts are to be settled at the end of six months.

4 74. XYZ Ltd a US firm will need £ 3,00,000 in 180 days. In this connection following information is available 15

Spot rate 1£ = $2 and 180 days' forward rate of £ as of today = $1.96

The interest rate is as follows

	UK	**US**
180 days deposit rate	4.5%	5%
180 days borrowing rate	5%	5.5%

A call option of £ that expires in 180 days has an exercise price of $1.97 and a premium of $0.04.

XYZ Ltd has a forecast of the spot rates 180 days hence is as below

Probability	**Future rate**
25%	$1.91
60%	$1.95
15%	$2.05

Which of the following strategies would be most preferable to XYZ?

a.) A forward contract

b.) A money market hedge

c.) An option contract

d.) No hedging

Show calculation in each case

4 75. Find out the translation loss/gain based on the following data supplied by the Indian subsidiary to its parent unit in the USA. 15

Liabilities	**Rs.(in million)**	**Assets**	**Rs.(in millions)**
Current Liabilities	400	Cash	100
Share capital	1,000	Marketable securities	100
Bonds	600	Debtor	200
Retained Earnings	400	Inventory	300
		Land	600
		Plant & Machinery	800
		Furniture	300

Historical rate = Rs.50/US $; Current rate = Rs.56/ US $

Note: The attached question paper is to be taken as a model question paper and all the M.Com III semester Question papers will have the similar pattern.

MODEL QUESTION PAPER FOR M. Com

<table>
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<tr><td colspan="3">Time: 3 hours   Max Marks: 70</td></tr>
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<tr><td></td><td align="center">Answer any FIVE of the following:</td><td rowspan="9">5x5=25</td></tr>
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	Spot 1 USD = ₹ 56.50 60 days forward for 1$ = ₹57.10 90 days forward for 1 $ = ₹57.50 Evaluate: a.) Pay the supplier in 60days b) Avail supplier's offer of 90 days credit.	
	PART-C **CASE STUDY-COMPULSORY**	
14	Find out the translation loss/gain based on the following data supplied by the Indian subsidiary to its parent unit in the USA.	**1x15=15**

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Historical rate = Rs.50/US $; Current rate = Rs.56/ US $

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