

P.G.D.I.F.A. Sem.-2 Examination**Paper-7****International Financial Management****Time : 2.30 Hours]****June-2025****[Max.Marks : 70**

- Q-1 Discuss the salient features of Foreign exchange market. (14)
- OR**
- Q-1 (A) Describe the differences between foreign bonds and Eurobonds. Also discuss why Eurobonds make up the lion's share of the international bond market. (7)
- (B) How is international financial management different from domestic financial management? (7)
- Q-2 Modi Inc., a US based pharma company has received an offer from Shah Pharma from India to set up a plant in India for a flu vaccine name 'FLVC1' in a joint venture. (14)
- As per agreement Modi Inc. will received 60% of the share of revenue and royalty @ US \$ 0.02 per unit. Initial investment will be of Rs.500 crores for plant and machinery. The scrap value will be 5% of the plant and machinery at the end of 5 years. Depreciation applicable on plant and machinery is 20% on straight line method. An initial working capital of Rs.50 crores will be required and thereafter Rs. 10 crores each year.
- Estimated price per unit will be Rs. 30 and production will be 50 crore units per year. The price shall be increased by 10% each year in addition of inflation. The production cost shall be 30% of the revenue.
- Tax rates in India is 30% and in US is 35%. There is double taxation avoidance treaty between India and US. As per the treaty credit of taxes paid in India shall be given in US. In both the countries taxes are payable in the following year in which profits earned / remittances received.
- The spot rate for US \$ is Rs. 80. The inflation rate in India is 6 % and expected to be decreased by 0.25 % every year and the same in US is 5%
- As per policy in India, 50% of the share of revenue can be remitted in the year in which it is earned and the remaining in the next year.
- Expected rate of return is 15%.
- Determine whether Modi Inc. should invest in the project or not.
- OR**
- Q-2 (A) Discuss the differences between fixed and flexible exchange rate systems (7)
- (B) Who are the major participants in a foreign exchange market? How do the operations of the central bank affect the exchange rate in the market? (7)
- Q-3 Discuss the sources of International Finance. (14)
- OR**
- Q-3 (A) Explain how special drawing rights (SDR) are constructed. Also, discuss the circumstances under which the SDR was created by IMF. (7)
- (B) Discuss what does world bank do in detail. Who runs the world bank? Discuss. (7)
- Q-4 Explain different methods of evaluating the international capital budgeting decision. (14)
- OR**
- Q-4 (A) What is countertrade? Explain its major forms. (7)
- (B) What do you mean by pre-shipment finance? Enumerate the methods of pre-shipment finance? Describe the procedure of pre-shipment credit in foreign currency (7)
- Q-5 Multiple choice questions... (14)
- 1 European quotations are
- Obtained from European banks
 - It is the number of foreign currencies per US dollar
 - Obtained from European markets
 - It is so many units of US dollar per unit of foreign currency
- 2 The rate at which bank buys left hand side currency is called_____.
- Ask Rate
 - Bid Rate
 - Spot Rate
 - Forward Rate
- 3 In order to secure export payments against political and economic risks and get financial assistance from institutions, the exporter must register with?
- Director General of Foreign Trade (DGFT)
 - Apparel Export Promotion Council (AEPCC)
 - Registration-cum-Membership Certificate (RCMC)
 - Export Credit and Guarantee Corporation (ECGC)
- 4 Which letter of credit is most commonly used in foreign trade?
- Revocable letter of credit
 - Revolving letter of credit
 - Irrevocable letter of credit
 - Transferable Letter of credit

(P.T.O)

- 5 A 'credit' in balance of payments indicates
- Accumulation of bank balances abroad
 - Foreign direct investment received into the country
 - Earning of foreign exchange by country
 - Earning of foreign exchange or incurring of liability abroad or decrease in asset abroad
- 6 Indirect rate in foreign exchange means-
- The rate quoted with the units of home currency kept abroad
 - The rate quoted with the units of foreign currency kept fixed
 - The rate quoted in terms of a third currency
 - None of the above
- 7 If the parent company assesses that the subsidiary would sell for more than break even salvage value, it will _____
- Accept the investment proposal
 - Reject the investment proposal
 - Accept the investment proposal but there will be chances for loss in the value in terms of host country currency.
 - Accept the investment proposal but it is doubtful how far it will be useful for the parent company
- 8 _____ indicates the mismatch between assets and liabilities in terms of their respective market value.
- Transaction Exposure
 - Translation Exposure
 - Real Balance Sheet Exposure
 - Quotation Exposure
- 9 Arbitrageur in foreign exchange market-
- Buys when the currency is low and sells when it is high
 - Buys and sells simultaneously the currency with a view to making profits
 - Sells the currency when he has a receivable in future
 - Buying or selling with a view to make advantage of market imperfections
- 10 Forward dollar is quoted at a discount against Euro, it means-
- It is beneficial to buy dollar in the forward market
 - It is better to do transactions in euro than in dollars
 - Spot dollars are costlier than forward dollars against euro
 - Spot dollars are cheaper than forward dollars against euro
- 11 When the foreign currency (in which the nominal contract is denominated) is appreciating, pay off the liabilities early and collect the receivables later. This is conceptualized as _____.
- Leads and Lags
 - Parallel Loans
 - Management of Receivables
 - Management of Cash
- 12 Spread is
- Difference between bid rate and ask rate
 - Difference between spot rate and forward rate
 - Difference between exchange rate and interest rate
 - Difference between indirect rate and direct rate
- 13 Forward margin is-
- The profit of forward contract
 - Commission payable to exchange brokers
 - Difference between the spot rate and forward rate
 - None of the above
- 14 Hedging Transaction is indicated by
- Transaction in odd amounts
 - Presentation of documentary support
 - Frequency of such transactions
 - None of the above