

**IMBA in BI/IB/APR Sem.-9 Examination
F-IFM**

Time : 2.30 Hours]

December-2025

[Max.Marks : 70

- Instructions :** (1) This paper contains **FIVE** questions.
(2) All questions are compulsory.
(3) Question No. **2, 3, 4** have internal options.
(4) Figures in the right side in parenthesis indicate marks.

Q.1 Read the following case and answer the question based on it. **(14)**

CASE - INTEREST RATE, EXCHANGE RATE, AND INFLATION IN INDIA

The higher interest rate regime in India is seen as one of the important reasons for the recent economic slowdown, industrial growth and low appetite for investment. In the present weak global market environment where the risk appetite is low, the interest rates tend to remain high in order to attract more risk premium. Even with high nominal rates, if proper allowance is provided for inflation and taxes, the real estate rates become much lower in comparison to the return on other classes of assets such as real estate and gold. In markets where investments move from lower currencies to higher ones, large carry trades take place. The US Fed signals that till the middle of 2014, there will be no increase in the low interest rates. This provides opportunities to the operators to bring inflows from those countries only when there is high interest arbitrage. This further leads to exertion of pressure on interest rates. The Indian economy is not fully market-driven and a number of elements are present that are administered by the government and other authorities. Such elements are minimum support prices, interest subventions and subsidies. This also means that the interest rates are not freely determined by demand and supply. Factors such as a country's balance of payments and exchange rates also determine the exchange rates. One of the reasons leading to such high interest rates is also the burgeoning current account deficit. The Central bank's signal in its monetary policy will also play an important role in determining the interest rates in the market. Any stringent measure to squeeze liquidity through monetary action and stiff policy rates will drive interest rates northwards, as demand for liquidity outstrips supply. It is not possible to bring down nominal rates until inflation is tamed. This is because real interest rates will tend to move to unsustainable levels. It is necessary to make the supply-side bottlenecks smoother in order to keep the inflation rate in control. Sovereign rating can be improved through a strong currency, better fiscal discipline and sustained growth. They also help in raising the earning potential of large sections of society,

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increasing savings and bringing down interest rates. Banks on their part would also do their best in considering rate cuts for ensuring adequate flow credit to ensure adequate flow credit to productive and select sectors of the economy.

Question - Examine the factors that determine the exchange rate.

Q.2 Define Exposure. Explain in detail the Transaction Exposure and its types. (14)

OR

Q.2 Explain with the illustration Forward contract in International Finance. (14)

Q.3 Explain different types of International Financial Instruments. (14)

OR

Q.3 Write a detailed note on Global Financial Markets. (14)

Q.4 Explain the Basel Norms and its impact on Financial Institutions. (14)

OR

Q.4 Explain in detail taxation issues in International Finance. (14)

Q.5 Firm A absorbs Firm B on the basis of the following data. (14)

Present Earnings: Firm A \$40,000, Firm B - \$18,000

No. of Shares: Firm A- 5000, Firm B – 3000

EPS: Firm A -\$ 8, Firm B- \$ 6

Market price of shares: Firm A - \$40, Firm B – \$21

Price Earnings Ratio: Firm A – 5, Firm B – 3.50

Find out the gain to Firm A if the consideration price is \$ 24 per share

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