2/33

1905E695 Candidate's Seat No :

M.B.A.-II (Sem.-III) Examination
International Finance
May-2017

Time : 3 Hours] **[Max. Marks : 70**

Instructions : 1) This is a closed book examination.
2) Make any assumptions, if required.
3) Please start your answer to next question on a new page.

Q1. Write short notes on the following questions: 20)
i) Trading in international bond markets
ii) Export Import Bank of India
iii) Importance of foreign direct investment for international trade
iv) Factors affecting international equity returns

Q2a) Discuss major trends related to globalisation of the world economy. 10)

Q2b) Explain the importance of Bretton Woods System and its role in managing exchange rate and promoting international trade. 10)

OR

Q2a) How are forward contracts executed ? Explain, with an example. 10)

Q2b) Differentiate between current account and capital account in balance of payments and highlight their importance for any country. 10)

Q3a) Australian dollar put options have been sold by a company, at premium of $ 0.03 per unit and exercise price of $ 0.86 per unit. Determine net profit or loss to company, for given levels of future spot rates and if options are exercised at that rate ? 10)
Rates are $ 0.82, $ 0.85, $ 0.0.89 and $ 0.91.

Q3b) How can forex futures market be used for price discovery ? 10)

OR

Q3a) What is meaning of currency trading at a premium or at a discount in forward market ? Explain with examples. How is it useful in managing international trade ? 10)

Q3b) 1 year risk-free interest rate in Mexico is 9 % and in US is 7 %. Assume that IRP exists. spot rate of Mexican Peso is $ 0.18. Calculate 1 year forward rate of Peso. If spot rate changes, as expected, according to IFE, what will be spot rate in 1 year ? Compare your answers and explain relationship. 10)

Q4a) The current spot exchange rate is $3.75/£ and the three-month forward rate is $3.65/£. Exchange rate is analysed and it is believed that spot exchange rate will be $ 3.68/£ in three months. Assume that you would like to buy or sell £ 50,00,000 10)
a. What actions do you need to take to speculate in the forward market? What is the expected dollar profit from speculation?
b. What would be your speculative profit in dollar terms if the spot exchange rate actually turns out to be $ 3.62/£.

Q4b) Discuss importance of using letter of credit for international trade. 10)

OR

Q4a) Three different banks are quoting spot rates for three currency pairs given below : 10)

P.T.O

E695-2

Bank of Japan quotes : S = 100 JPY/USD Bank of America quotes: S = 1.60 USD/GBP Bank of England quotes S = 140 JPY/GBP. If we consider the first two quotes, then JPY/GBP quote should be at 160 JPY/GBP. However bank of England quotes 140 JPY/GBP. It indicates that Bank of England is undervaluing GBP. Show how triangular arbitrage happens and calculate profit.

Q4b) What are the conditions supporting existence of translation exposure ? Explain with examples. 10)

Q5 Suppose that the current spot exchange rate is €0.80/$ and the three-month forward exchange rate is €0.7813/$. The three-month interest rate is 5.6 percent per annum in the United States and 5.40 percent per annum in France. Assume that you can borrow up to $1,000,000 or €800,000. 20)

a. Show how to realize a certain profit via covered interest arbitrage, assuming that you want to realize profit in terms of U.S. dollars. Also determine the size of your arbitrage profit.

b. Assume that you want to realize profit in terms of euros. Show the covered arbitrage process and determine the arbitrage profit in euros.