

Paper / Subject Code: 86002 / Finance:International Finance

(2½ Hours)

[Total Marks: 75]

Note:

- 1) All questions are compulsory subject to internal choice.
- 2) Figures to the right indicate full marks.
- 3) Use of simple calculator is allowed

Q.1.

(A) Match the following:- (any 8):

(08)

“Group A”		“Group B”	
1	BOP	a	Derivative financial instrument
2	Floating exchange rate	b	T+2
3	Spread	c	Integral part of capital budgeting
4	Straight Eurobonds	d	Risk of Outliving your savings
5	Cross listing	e	Replaced by FEMA
6	FERA	f	Shares listed on one or more foreign exchanges
7	Longevity Risk	g	Fixed Coupon
8	Investment Appraisal	h	Ask - Bid
9	Spot Market	i	Currency price set by demand and supply
10	Currency Option	j	Double Entry Book keeping system

Q.1.(B) State whether the following statements are True or False (any 7):

(07)

- 1) Terrorism obstructs the smooth flow of economic activities.
- 2) The gold standard is not used currently by any government.
- 3) Currency's strength is also affected by country's political and economic strength.
- 4) During investment appraisal, higher IRR should be preferred.
- 5) LIBOR stands for “Luxemburg Inter Bank Offer Rate”.
- 6) Money is not a fuel for the economy.
- 7) Main Center of Euro currency markets is India.
- 8) Debt financing is the process of raising capital through sale of shares.
- 9) IDR stands for International Depository Receipts.
- 10) High tax is levied in a tax haven.

Q.2.(A) Discuss the significance of International Finance.

(08)

(B) List and explain the features of Gold Standard.

(07)

OR

(P) The following quote is given in Mumbai: 1USD = INR 69.1325-69.1425

(08)

- Is it a Direct Quote in India?
- Find Mid Rate, Spread and Spread%
- Calculate the inverse quote.

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**(Q)** The following quotations are available in USA: **(07)**

1 USD = GBP 0.7850-50

1 USD = CAD 1.1225-75

And the quotation available in Toronto is: 1 GBP = CAD 1.4750-1.4850

- From the quotes given in New York, derive the quotation for 1 GBP in terms of CAD
- Compare the derived quotation with quotation available in Toronto and identify if any arbitrage opportunity exists. (Assume Capital GBP 1 Million)

**Q.3.(A)** What are currency options? Explain its types. **(08)**

**(B)** Discuss any three innovations in Euro Bond markets. **(07)**

**OR**

**(P)** Consider the following information: **(08)**

Spot	1 USD = CHF	1.5225	-	1.5335
1 Month Forward		25	-	75
3 Month Forward		125	-	225
6 Month Forward		625	-	725

Calculate 1 Month Forward, 3 Month Forward and 6 Month Forward USD/CHF Rate.

**(Q)** Spot USD/INR 68.2550 **(07)**

3 Month Forward USD/INR 669.1225

Calculate the 3 Months AFM and interpret the results.

**Q.4.(A)** What is FERA? How is it different from FEMA? **(08)**

**(B)** Describe any three capital budgeting techniques. **(07)**

**OR**

**(P)** Given: **(07)**

Spot 1 EUR = USD 1.225

EUR Interest Rate = 1.20% p.a.

USD Interest Rate = 0.75% p.a.

Calculate 3 Month Forward EUR/USD quotation

**(Q)** From the following data, find the best alternative for borrowing INR 10 Million for a temporary period of 3 Months. Exchange rates are against INR. **(08)**

	Currency	Spot Rate	3 months forward rate	Interest rate
1.	USD	67.1250	67.2550	4.00 % p.a.
2.	EUR	81.1750	81.1850	4.50 % p.a.
3.	GBP	90.1225	90.1275	5.00 % p.a.

Q.5.(A) What are objectives of taxation? (08)

(B) Mr. Shahid Kapoor is planning to buy a machine which would generate cash flow in USD (07)  
as follows:

Year	0	1	2	3	4
Cash flow in USD	(50,000)	12000	16000	30000	16000

If discount rate is 10%, is it worth to invest in machine? (Discounting factor at 10% for first four years is 0.909, 0.826, 0.751 and 0.683 respectively).

OR

(P) Write Short Notes on (any three) (15)

- i) Balance of Payments Identity
  - ii) Global Money market instruments
  - iii) Origin of Eurocurrency market
  - iv) Role of FEDAI
  - v) Currency Options in India
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