

**VI Semester B.B.M. Examination, May/June 2007**  
**(Semester Scheme)**

**BUSINESS MANAGEMENT**

**6.3 : E - 3 : International Finance (Paper - 2)**

Time: 3 Hours

Max. Marks: 90

**Instruction:** Answers should be written in English only.

**SECTION - A**

Answer any 10 Sub-questions. Each carries 2 marks.

(2×10=20)

- a) Why is important to study International Financial Management ?
- b) Why do foreign exchange rates fluctuate ?
- c) What is hedging ?
- d) What is Arbitrage ?
- e) Distinguish between the spot market and the forward market.
- f) What is meant by swap transactions ?
- g) What is spot rate ?
- h) What is transfer pricing ?
- i) What is meant by economic exposure ?
- j) What is an European call option ?
- k) When should a firm consider purchasing a put option for hedging ?
- l) If ask price is Rs. 43.725/\$ and bid price is Rs. 43.325/\$, calculate the spread (in percentage).

**SECTION - B**

Answer any 5 questions. Each question carries 5 marks.

(5×5=25)

Briefly discuss the major factors that complicate financial management in multinational firms.

What are the important features of foreign exchange market in India ?

4. What is convertibility of a rupee ? What are its implications ?
5. What are the functions of the futures market ?
6. What are the factors which influence the foreign exchange rate ?
7. Is floating rate system more inflationary than a fixed rate system ? Explain
8. Why do companies involved in international trade have to hedge their foreign exchange exposure ?

9. Given the following data

Spot Rate Rs. 42.0010 = \$1

6 month forward Rate Rs. 42.8020 = \$1.

Annualised interest rate on 6 month rupee : 12 Percent.

Annualised interest rate on 6 month dollar : 8 percent.

Calculate interest differential between Indian rupee and American dollar and Forward Premium.

### SECTION - C

Answer any 3 questions. Each question carries 15 marks.

10. Discuss the significance of international financial management.
11. Distinguish between a forward and futures contract. Which of the two is popular ? Why ?
12. Discuss the role of MNCs in FDI.
13. Derivatives are used for the purpose of risk management - Explain.
14. What is foreign exchange exposure ? Discuss the three kinds of exposures.