Roll No. | | | | | | | | | | | | **Total No. of Pages : 03**

Total No. of Questions : 15

MBA (2012 & Onward) (Sem.–4)

INTERNATIONAL FINANCE

Subject Code : MBA-926

Paper ID : [A2531]

Time : 3 Hrs. **Max. Marks : 60**

INSTRUCTION TO CANDIDATES :

1. **SECTION-A contains SIX questions carrying FIVE marks each and students has to attempt any FOUR questions.**
2. **SECTIONS-B consists of FOUR Subsections : Units-I, II, III & IV. Each Subsection contains TWO questions each carrying EIGHT marks each and student has to attempt any ONE question from each Subsection.**
3. **SECTION-C is COMPULSORY and consist of ONE Case Study carrying EIGHT marks.**

SECTION-A

1. What are the factors affecting international trade flows?
2. Distinguish between foreign currency futures and forward contracts.
3. Distinguish between gold specie standard, gold bullion standard and gold exchange standard.
4. What are transaction risk and transaction exposure?
5. What are the factors influencing foreign exchange rates?
6. What are the major functions of EXIM of India?

SECTION-B

UNIT-I

7. The experiences of fixed exchange rate systems & target zone arrangements have not been entirely satisfactory.

   a) What lessons can economists draw from the breakdown of the Bretton Woods system?

   b) What lessons can economists draw from the exchange rate experience of the European monetary systems?

8. How financial management at International level is more challenging than at domestic level? What are the major challenges?

UNIT-II

9. a) What are the primary functions of a foreign exchange market?

   b) Suppose a currency increases in volatility. What is likely to happen to its bid ask spread? Why?

10. Define each of the following types of foreign exchange transactions :

    a) Spot

    b) Outright forward

    c) Forward- forward swaps

    d) Non-deliverable forward

UNIT-III

11. What risks confront dealers in the foreign exchange market? How can they cope with those risks? Explain with the help of example.

12. What is the basic translation hedging strategy? How does it work? What alternative hedging transactions are available to a company seeking to hedge the translation exposure of its Japanese subsidiary?

UNIT-IV

13. Explain in detail various long term instruments of finance used in international business and advantages and disadvantages of each.

14. What is international factoring? How does it differ from forfaiting? Explain the mechanism of international factoring?

SECTION-C

15. Case Study

Euclides Engineering Ltd.

The submission of a bid to the Mexican government's agency in charge of the rural electrification project had been most disappointing. In November 1984, Sam Finkel, Manager-Finance of the Power Systems Management Division at Euclides Engineering, was notified that Euclides had been underbid to the tune of $13 million by the Swiss-West German consortium Brown-Boveri & Siemens.

Euclides had entered the bidding contest for the installation of five high-voltage transmission units near Monterey, Mexico's second largest industrial center. The bid submitted in March 1984 was in the amount of $67 million to be paid in three equal installments on July 1,1986; December 31,1986; and July 1,1987, with installation to be completed in the last six months of 1985. Attached with the reply from the Mexican government was a photocopy of the two bids, which were virtually identical from the standpoint of technical specifications but which varied in terms of payment.

- Brown-Boveri & Siemens: equivalent of $54 million (denominated in Deutsche marks at the rate of DM 3.14:$1). Same payment schedule as Euclides, but in three equal installments of Deutsche marks.
- Euclides Engineering: $67 million

A second round of bidding was to be held on December 10, with the winner to be announced on December 20. Sam Finkel was concerned that a strong dollar has just about closed his export markets where Euclides used to be price competitive even when lavish export credits were offered by its foreign competitors. Sam felt that in spite of his new financial responsibilities, his background and the last 15 years of his career as a civil engineer with Euclides did not quite equip him with the creative financing skills that could close the seemingly unbridgeable gap between the two bids. Fortunately, Sam felt he could depend on his newly hired assistant, Gerardo Wehmann, a Mexican national with graduate education in electrical engineering from Stanford and an MBA in international business from the Wharton School.

Gerardo, who had gone over the files, felt that the exchange rate consideration had much to do with Euclides's problem. He decided to study the situation further. To begin, he examined the Deutsche mark exchange rate forecasts put out by Wharton Econometric Forecasting Associates (WEFA). He also studied the forward rates and the rate on several options contracts as of December 3. These data are contained in Exhibits II 2.1 and II 2.2, respectively.

QUESTIONS

a. In view of the relative values of the U.S. dollar and the Deutsch mark, how can you explain the discrepancy between the U.S. and the Swiss-West German bids?

b. Can Euclides match the Swiss-West German bid without changing its dollar price? How?

c. If you were to advise the Mexican government on how to compare bids denominated in different currencies, what would your advice be?