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

Total No. of Questions: 15

MBA (2012 & Onward) (Sem. – 4)

INTERNATIONAL FINANCE

M Code: 71385

Subject Code: MBA-926

Paper ID: [A2531]

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

INSTRUCTIONS TO CANDIDATES:

1. **SECTION-A contains SIX questions carrying FIVE marks each and students have 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 students have to attempt any ONE question from each Subsection.**
3. **SECTION-C is COMPULSORY and consist of ONE Case Study carrying EIGHT marks and answer the given questions.**

SECTION A

1. Discuss the challenges of international financial management.
2. Discuss the factors that affect international trade flows.
3. What are the factors that affect foreign exchange rates?
4. Discuss the Fisher effect in international finance.
5. What is country risk analysis in international financial management?
6. Discuss the role of EXIM Bank of India.

SECTION B

UNIT I

7. Discuss the nature and scope of international finance.
8. Write notes on:
   a) Gold standard
   b) Economic and Monetary union.

UNIT II

9. Discuss in detail the functions and structure of Forex markets.

10. Write notes on:

    a) The international Fisher effect.

    b) Foreign Exchange quotations.

UNIT III

11. What are derivative markets? Discuss the role of derivative markets in international finance.

12. Write notes on:

    a) Transaction Exposure

    b) Swap

UNIT IV

13. Discuss the various sources of long term finance in international management.

14. Write short notes on

    a) GDR's

    b) Discounting.

SECTION C

15.

Functional currency is a concept that was introduced into IAS 21, the effects of changes in Foreign Exchange Rates, when it was revised in 2003. The previous version of IAS 21 used a concept of reporting currency. In revising IAS 21 in 2004, the IASB's main aim was to provide additional guidance on the translation method and determining the functional and presentation currencies. The functional currency should be determined by looking at several factors. This currency should be the one in which the entity normally generates and spends cash, and that in which transactions are normally denominated. All transactions in currencies other than the functional currency are treated as transactions in foreign currencies. The entity's functional currency reflects the transactions, events and conditions under which the entity conducts its business. One decided on, the functional currency does not change unless there is change in the underlying nature of the transactions and relevant conditions and events.

Foreign currency transactions should initially be recorded at the spot rate of exchange at the date of the transaction. An approximate rate can be used. Subsequently, at each closing rate. Non-monetary items measured at historical cost should be reported using the exchange rate at the date of the transaction. Non-monetary items carried at fair value, however, should be reported at the rate that exited when the fair values were determined.

An entity, with the dollar as its functional currency, purchases plant from a foreign entity for €18m on 31 May 2008 when the exchange rate was €2 to $1. The entity also sells goods to a foreign customer for €10.5 m on 30 September 2008, when the exchange rate was €1.75 to $1. At the entity's year end of 31 December 2008, both amounts are still outstanding and have not been paid. The closing exchange rate was €1.5 to $1. The accounting for the items for the period ending 31 December 2008 would be as follows:

The entity records the plant and liability at $9m at 31 May 2008. At the year end, the amount has not been paid. Thus using the closing rate of exchange, the amount payable would be retranslated at $12m, which would give an exchange loss of $3m in profit or loss. The asset remains at $9m before depreciation. The entity will record a sale and trade receivable of $6m. At the year-end, the trade receivable would be stated at $7m, which would give an exchange gain of $1m that would be reported in profit or loss. IAS 21 does not specify where exchange gains and losses should be shown in the statement of comprehensive income.

Questions:

1. What is the importance of functional currency?
2. How functional currency affects the foreign exchange rate?