

*Answer any FIVE Questions One Question from Each Unit**All Questions Carry Equal Marks***UNIT-I**

1. a Describe the impact of the Bretton Woods System on global trade. 6M
- b Examine the role of Special Drawing Rights (SDRs) in international finance. 6M

**OR**

2. a Evaluate the effect of the Euro on global currency stability. 6M
- b Evaluate the role of the IMF and World Bank in global finance. 6M

**UNIT-II**

3. a Explain the types of foreign exchange risks and their implications. 6M
- b Discuss the role of currency diversification in hedging strategies. 6M

**OR**

4. a Explain the concept of value at risk (VaR) in managing currency risk. 6M
- b Illustrate with examples how exposure to foreign exchange is managed in practice. 6M

**UNIT-III**

5. a Describe the features and significance of Euro Loans. 6M
- b Discuss the process of issuing Global Depository Receipts (GDRs). 6M

**OR**

6. a Analyze the role of credit rating agencies in international markets. 6M
- b Evaluate the challenges in raising capital from international markets. 6M

**UNIT-IV**

7. a Discuss the strategic importance of Foreign Direct Investment (FDI). 6M
- b Evaluate the tools used for risk-adjusted capital budgeting. 6M

**OR**

8. a Discuss the benefits and risks of joint ventures in foreign markets. 6M
- b Explain the importance of cultural due diligence in foreign investments. 6M

**UNIT-V**

9. a Discuss the accounting treatment of foreign currency transactions. 6M
- b Analyze the impact of exchange rate changes on consolidated financial statements. 6M

**OR**

10. a Evaluate the implications of translation exposure on financial statements. 6M
- b Describe performance evaluation techniques in international subsidiaries. 6M

**CASE STUDY**

- 11 15M

Apex Corp. is a US based MNC that has been in international business for the last several years. It has been conducting business with all the major countries of the world. One of the countries has allowed for its currency value to be market determined. The spot rate of currency is \$ 85. In addition, the one year forward rate being quoted in the market is \$ 82. As a step to build the economy, the country is also allowing foreign investors to make investments. Various incentives are being

offered by the country to attract foreign funds. The rate of interest on one year government securities is presently 16%. This is substantially higher than the 10% rate which is presently offered on one year US government securities.

Apex Corp. has asked you, as an employee in their international money market division, to assess the feasibility of making a short-term investment in this country. The amount available for making the investment for the next year is \$ 12 million.

The Apex Corp. has also come to know that the exchange rate in this country will be market determined for the next few years. Financial managers in Apex Corp. are hence apprehensive about the high volatility of the currency till an equilibrium is reached. It is expected that the value of currency in one year will be approx. \$ 85. However, there is a high degree of uncertainty attached with this value and predictions are being made that the actual value may be 30% above or below this expected value.

### **Questions**

- (a) Would you be willing to invest funds in this country without covering your position? If yes, then answer, why?
- (b) Would covered interest arbitrage be worth considering? Show your calculations.
- (c) Are there any risks involved in using interest arbitrage? Elucidate.