Code : 302602

B.B.A. 6th Semester Theory Exam., 2017

International Finance

Time : 3 hours *Full Marks : 60*

Instructions :

(i) The question are of equal value.

(ii) There are seven questions in this paper.

*(iii) Attempt **five** questions in all.*

(iv) Question Nos. 1 & 2 are compulsory.

1. Choose the correct answer (any six): 2×6=12

(a) A multinational has one subsidiary in a 45 per cent tax rate country, and another in a 30 per cent tax rate country. To increase its overall after-tax earnings, the headquarters should arrange to:

(i) Move expenses from the high-tax rate subsidiary to the low-tax-rate subsidiary.

(ii) Lower the price of supplies from the low-tax-rate subsidiary to the high-tax-rate subsidiary;.

(iii) Have the low-tax-rate subsidiary lower its prices charged for materials transferred to the high-tax rate subsidiary;

(iv) None of the above

(b) A firm produces goods for which substitutes are universally available. Depreciation of the firm's home currency should:

(i) Reduce local sales because foreign competition in the home market is reduced;

(ii) reduce payments required to pay for imports denominated in foreign currency;

(iii) reduce the firm's exports denominated in the firm's home currency.

(iv) reduce returns on the firm's foreign bank deposits.

(v) None of the above

(c) Which of the following creates an effective hedge of net payables in US dollars for a UK firm?

(i) Sale of pound forward for dollars.

(ii) Sale of sterling futures.

(iii) Purchase of a sterling futures.

(iv) None of the above.

(v) All of the above.

(vi) None of the above.

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(d) An example of maturity matching would be:

(i) Refinancing debt with bonds of the same maturity as the original maturity of the debt being refinanced.

(ii) Refinancing debt with bonds of the same maturity as remains on the debt being refinanced.

(iii) Financing fluctuating current assets with long-term debt, and permanent assets with short-term debt.

(iv) Lighting a match to get fire to burn up old, retired, bond certificates.

(v) Financing current assets with short-term debt, and permanent assets with long-term debt.

(e) Which of the following statements is true about designing a good reporting system on foreign exchange exposure?

(i) Routine reports should concentrate upon economic exposure, rather than translation of transaction exposure, because this represents the present value of future cash flows which is the key to corporate valuation.

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(ii) Reports should concentrate on translation exposure because this will affect earnings per share which is the key to corporate valuation;

(iii) Central control with virtually no input from the local level is essential.

(iv) Reports should be generated by currency as well as by subsidiary

(f) Which of the following is not a logical tactic for a US firm that will have to pay for a machine in euros in the future and desires to avoid exchanges rate risk assuming the firm has no offsetting position in euros?

(i) Buy euros now and put them on deposit to meet the payment when if falls due.

(ii) Enter into a forward contract to buy euros.

(iii) Buy a call option on euros.

(iv) Sell a futures contract on euros.

(v) None is illogical; (i), (ii), (iii) and (iv) are all logical.

(g) If a call option is far 'out of the money' the value of the option will be:

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(i) Less than the value of a put option with the same exercise price.

(ii) Equal to the value of a put option with the same exercise price.

(iii) Greater than the value of a put option with the same exercise price.

(iv) Zero

(v) None of the above

(h) The difference between the value of a call option and a put option with the same exercise price is due primarily to:

(i) The volatility of the price of the underlying stock.

(ii) The use of continuous as opposed to discrete discounting.

(iii) The effect of dividends on the two securities.

(iv) The greater liquidity of call options.

(v) The differential between the current stock price and the exercise price in present value terms.

(i) Which of the following statements is false?

(i) The intrinsic value reflects the option's potential appreciation

(ii) Option prices almost always exceed intrinsic values

(iii) Out-of-the-money for a call means that the stock price is less than the exercising price.

(iv) European options are traded in Europe as well as in America.

(v) An option's premium cannot decline below intrinsic value

(j) Which of the following is not an interest rate derivative used for interset rate management?

(i) Cap

(ii) Interest rate Guarantee

(iii) Swap

(iv) Floor

(v) All of the above are interest rate derivatives

2. Answer any three of the following: $4 \times 3 = 12$

(a) What are the main objectives of Bretton Woods System?

(b) Briefly explain the criteria of good monetary system.

(c) Differentiate between currency future and swap.

(d) How the exchange rates are determined in foreign exchange market?

(e) Explain the features of an option.

3. Discuss the advantages and disadvantages of Gold standard System.

4. How are foreign Exchange transaction between International bank settled?

5. What is meant by Currency Trading at a discount or at a premium in the foreign market?

6. Would exchange rate changesalways increase the risk of foreign *Investment? Discuss* the condition under which exchange rate changes may actually reduce the risk of foreign investment.

7. What is the difference in pay off of long position on an asset and the call option on the same.

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