

GUJARAT TECHNOLOGICAL UNIVERSITY**MBA - SEMESTER-IV • EXAMINATION – SUMMER 2013****Subject Code: 840202****Date: 23-05-2013****Subject Name: International Finance****Time: 14:30pm – 17:30pm****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

- Q.1** (a) What is balance of payments identity? Explain its implications. **07**
(b) Describe the methods of payment used in international trade. **07**

- Q.2** (a) How are the foreign exchange transactions between banks settled? **07**
(b) Briefly discuss the various types of international banking offices. **07**

OR

- (b) You are an investment banker advising a Eurobank about a new international bond offering it is considering. The proceeds are to be used to fund Eurodollar loans to bank clients. What type of bond instrument would you recommend that the bank consider issuing? Why? **07**

- Q.3** (a) Consider the following quotations and show how you can make a triangular arbitrage profit by trading at these prices (ignore bid ask spreads and transaction cost) **07**

S(€\$) 1.0242

S(\$/SF) 0.6536

S(€SF) 0.6750

- (b) There are various forms of purchasing power parity which explain exchange rate determination between two currencies. Discuss relative and absolute form of purchasing power parity. Also discuss the reasons for departure from relative forms of PPP. **07**

OR

- Q.3** (a) What is triangular arbitrage? What is a condition that will give rise to a triangular arbitrage opportunity? **07**
(b) If the forward premium deviates substantially from the interest rate differential, covered interest arbitrage is possible, says the interest rate parity theorem. Briefly discuss the reasons why the interest rate parity may not hold good in reality. **07**

- Q.4** (a) Discuss any benefits you can think of for a company to (a) cross-list its equity shares on more than one national exchange, and (b) to source new equity capital from foreign investors as well as domestic investors. **07**
(b) Explain different types of documents used in financing foreign trade. **07**

OR

- Q.4** (a) How might a MNC use transfer pricing strategies? How do import duties effect transfer pricing policies? **07**
(b) What are the objectives of ECGC? Discuss the role of ECGC in the promotion of exports. **07**

- Q.5** (a) What factors would you consider in evaluating the political risk associated with making FDI in a foreign country? **07**
- (b) Explain the competitive and conversion effects of exchange rate changes on the firm's operating cash flow. **07**

OR

- Q.5** (a) How would you define transaction exposure? How is it different from economic exposure? **07**
- (b) How are translation gains and losses handled differently according to the current rate method in comparison to the other three methods, that is, the current/noncurrent method, the monetary/nonmonetary method and the temporal method? **07**
