Roll No.												

PRESIDENCY UNIVERSITY

BENGALURU

End - Term Examinations – MAY 2025

Date: 21-05-2025 **Time:** 01:00 pm – 04:00 pm

School: SOM-PG	**Program:** MBA	
Course Code : MBA3100	**Course Name:** International Finance	
Semester: IV	**Max Marks**: 100	**Weightage**: 50%

CO - Levels	CO1	CO2	CO3	CO4	CO5
Marks	26	26	24	24	NA

Instructions:

(i) Read all questions carefully and answer accordingly.

(ii) Do not write anything on the question paper other than roll number.

Part A

Answer ALL the Questions. Each question carries 3 marks. 10Q x 3M=30M

1.	Indicate a condition under which a firm may choose issuing GDRs over ADRs.	**3 Marks**	**L1**	**CO1**
2.	Indicate a reason a firm may experience increased currency risk during periods of global instability.	**3 Marks**	**L1**	**CO1**
3.	A 90-day forward contract for GBP/USD is trading at a 2% premium. The spot exchange rate is $1.25 per £1. Compute the 90-day forward exchange rate.	**3 Marks**	**L2**	**CO3**
4.	Explain the effect of increased inflation on a country's international purchasing power.	**3 Marks**	**L2**	**CO2**
5.	The spot rate of EUR/USD is $1.10 per €1, and the 6-month forward rate is $ 1.08 per €1. Calculate the forward premium or discount for the Euro.	**3 Marks**	**L3**	**CO2**
6.	Compute a possible impact on the exchange rate when a country's interest rates are significantly higher than global averages.	**3 Marks**	**L3**	**CO3**
7.	Explain a scenario where a multinational corporation may encounter economic exposure despite operating in its home currency.	**3 Marks**	**L2**	**CO3**
8.	Consider the following bid-ask price: ₹40-40.50/US $. Compute the bid-ask spread.	**3 Marks**	**L3**	**CO4**
9.	Compute the forward rate differential if spot rate of US $ is ₹45.00 and one month forward rate is ₹ 45.80.	**3 Marks**	**L3**	**CO4**
10.	If indirect quote is USD 0.0125/INR, Compute exchange rate under direct quote?	**3 Marks**	**L2**	**CO4**

Part B

Answer the Questions. Each question carries 10 marks. **4Q X 10M = 40 Marks**

11.	**a.**	Company 'A' wishes to borrow 10 million at a fixed rate for 5 years and has been offered 11% fixed or 6 month LIBOR+1%. Company B wishes to borrow 10 million at a floating rate for 5 years and has been offered 10% fixed or 6 month LIBOR+0.5%. Compute the way they enter into a swap agreement in which each benefit equally?	**10 Marks**	**L2**	**CO 1**
		Or			
12.	**a.**	Ascertain the transition from the Bretton Woods system to today's floating regime with implications for currency valuation stability.	**10 Marks**	**L3**	**CO 1**

13.	**a.**	Given the following rate 1 USD = INR 42.0010 6 month forward rate, 1 USD = INR 42.8020. Annualizes interest rate on 6 month in India is 12%. Annualized interest rate on 6 month in USA is 8%. Calculate the arbitrage probability.	**10 Marks**	**L3**	**CO1**
14.	**a.**	Ascertain the international Fisher effect to assess the likely currency movement between two economies with differing inflation and interest rates.	**10 Marks**	**L3**	**CO1**

15.	**a.**	Determine the BOP of current year in India from following information. 1. ABC Industries Ltd. Exported goods of USD 1,25,000 at the exchange rate of INR 80.25/$. 2. Infosys imported goods worth of EUR 2,50,000 from Germany at exchange rate of INR 74.3/EUR. 3. Diya International Ltd opened a Dubai subsidiary and investment INR. 2,00,00,000. 4. Mr. Rakesh is visited Thailand for trip and he spent Baht 1,00,000 and exchange rate is INR 5/TAB. 5. City Bank gave loan to Indian Government of INR 3,00,00,000. 6. A Canadian citizen visited India and he spent CAD 1,75,000 and exchange rate is INR 74.75/CAD. 7. Government of India gave aid to Nepal INR 50,00,000 due to natural calamities. You are required to compute the favorable or unfavorable BoP of India during given period.	**10 Marks**	**L3**	**CO2**
		Or			
16.	**a.**	Structure a comparative table of transaction, translation, and economic exposure and demonstrate its use in setting internal risk controls.	**10 Marks**	**L3**	**CO2**

17.	**a.**	A UK company invests £1,000,000 in a US project that will return $400,000 per year for 3 years. The expected exchange rates for the next 3 years are:	**10 Marks**	**L4**	**CO2**

		Year 1: £1 = $1.30 Year 2: £1 = $1.25 Year 3: £1 = $1.20 The UK firm's required rate of return is 8%. Calculate the NPV in GBP.			
		Or			
18.	**a.**	Ascertain the link between persistent BoP deficits and the decision-making framework of a multinational enterprise.	**10 Marks**	**L3**	**CO2**

Part C

Answer all the Questions. Each question carries 15marks **2Q x 15M=30M**

19.	**a.**	Ms. Pooja is a real time investor in this world. She is interested in US market and EURO Market. The interest in US is 4% and Europe is 9%. The exchange rate between US and Europe is as follows: Spot Rate Forward Rate USD 1.2/EUR USD 1.3/EUR Determine the covered arbitrage profit of Ms. Pooja	**15 Marks**	**L3**	**CO3**

20.	**a**	ABC Corporation, a multinational company, is considering investing in a new manufacturing plant in Country A. The initial investment required for the project is $10 million. The plant is expected to generate annual cash flows of $3 million for the next 5 years. The salvage value of the plant at the end of 5 years is estimated to be $2 million. The company's cost of capital is 10%. Assume all cash flows occur at the end of each year. Additionally, ABC Corporation expects the exchange rate between its home currency (USD) and the currency of Country A (CA$) to fluctuate over the investment horizon. The current exchange rate is 1 USD = 1.25 CA$. The company forecasts the following exchange rate scenarios: • Scenario 1: Exchange rate remains constant at 1 USD = 1.25 CA$. • Scenario 2: Exchange rate appreciates to 1 USD = 1.20 CA$. • Scenario 3: Exchange rate depreciates to 1 USD = 1.30 CA$. • Compute the project's net present value (NPV) under each exchange rate scenario and determine whether ABC Corporation should proceed with the investment.	**15 Marks**	**L4**	**CO4**