Paper/Subject Code: 86002/Elective: Finance: International Finance

TYBMS SEM 6

International Finance

(Objective Questions with Solution)

April 2019

Q.1. (A) Fill in the blanks by choosing the right option (any 8): [8]

(1) Reserves are held in following forms except _________. (Foreign Currency, SDR, Silver)

Answer: Silver

(2) Under ________ there is interference of monetary authorities to decide exchange rates (Fixed Exchange System, Flexible Exchange rate System, both)

Answer: Fixed Exchange System

(3) SBI A/C with HSBC in UK is an example of _________. (LORO, NOSTRO, VOSTRO)

Answer: NOSTRO

(4) PPP theory _______ government intervention. (ignores, includes, requires)

Answer: Ignores

(5) The project is financially viable if NPV is ________. (positive, negative, zero)

Answer: Positive

(6) _______ is known as secrecy jurisdiction. (Tax Haven, Transfer pricing, foreign affiliate)

Answer: Tax Haven

(7) ________ risk is also called as "Accounting exposure". (Transaction, Economic, Translation)

Answer: Translation

(8) ________ is a type of security listed in Luxemburg. (ADR, GDR, IDR)

Answer: GDR

(9) An option giving the buyer of the options the right but not the obligation to buy a currency is __________. (call option, put option, forward option)

Answer: Call option

(10) Difference between the value of merchandise exports & imports is ________ (BOP, BOT, Reserve A/C)

Answer: BOT (Balance of Trade)

Q.1(B) State whether the Following statements are True or False (any): (07)

(1) FDI is recorded in capital account of Balance of payments.

- True

(2) Under fixed exchange rate system value of currency is decided by market forces of demand & supply once

- False

(3) Spread in bid-risk

False. "Spread in bid-ask"

(4) Hedging means protecting the business from risks

- True

(5) Standardized contract terms are used in Forward contract

- True

(6) A Euro bond is un international, bond denominated in a currency not native to the county where it is issued

- True

(7) Sensex includes 30 largest & most actively traded stocks in BSE

- False. ***Sensex is an index of the top 30 companies listed on the Bombay Stock Exchange (BSE) based on market capitalization.***

(8) Entry & exit of FDI is more difficult compared to FPI

- True. ***Generally, FDI (Foreign Direct Investment) involves a deeper level of commitment and engagement with the host country compared to FPI (Foreign Portfolio Investment).***

(9) There is lot of transparency in tax havens.

- False. ***Tax havens are known for their lack of transparency and strict banking secrecy laws.***

(10) AFM stands for Arbitrageur's Forward Margin

- False. ***AFM typically stands for "Asset and Fund Management."***

November 2019

Q.1.(a) Multiple Choice Questions (any 8): [8]

(1) The term Euro currency market refers to ________.

a) The countries which have adopted Euros as their country,

b) the market in which Euro is exchanged for other countries,

c) the market where the borrowings and lending of currencies take place outside the country of issue.

d) the international foreign exchange market

(2) Bond issued simultaneously in several global financial centre is __________

a) Domestic Bond

b) Foreign Bond

c) Global Bond

d) Euro Bond

(3) IMF is a Firm of ________

a) 190 members countries

b) 182 members countries

c) 186 members countries

d) 183 members countries

(4) In a quote exchange rate, the currency that is to purchase with another currency is called

a) Liquid Currency

b) Foreign Currency

c) Local Currency

d) Base Currency

(5) US dollar denominated bond issued in US domestic market is known as _________

a) Yankee Bond

b) Bull dog Bond

c) Samurai Bond

d) Dual Bond

(6) IMF is headquartered in _______

a) Washington United States

b) New York United States

c) Geneva Switzerland

d) Avenue Du Mont Blanc Switzerland

(7) Japanese Yen denominated bond issued in Japan domestic market is ________

a) Yankee Bond

b) Bull dog Bond

c) Samurai Bond

d) Dual Bond

(8) An option at the money when ______

a) The strike price is greater than the spot price, in the case of call option

b) The strike price is greater than the spot price, in the case of put option

c) The option has a ready market

d) The strike price and the spot price are the same

(9) EURO is the official currency of ______.

a) All the states of Europe

b) All the states of European Union

c) Only 12 of the states of European Union

d) Only 10 of the states of European Union

(10) Forward contract is an agreement to buy or sell an asset on ______

a) Specified Price:

b) Specified Time

c) Specified Date

d) Specified Volume

Q.1.(B) Match the following:

Column "A"		**Column "B"**	
1.	ADR	a	Issued in European Capital Market
2	Pip	b	Interest Rate Futures
3	PPP Theory	c	Money transfer system at international level
4	LORO	d.	Negotiated only in America
5	IRF	e.	Japanese Currency
6	GDR	f.	Price Interest Point
7	YEN	g.	One Price Theory
8	SWIFT	h.	Interbank rate offer
9	Ask Rate	i.	"Theirs"
10	LIBOR	j.	Selling rate

Ans:

Column “A”		Column “B”	
1.	ADR	i	"Theirs"
2	Pip	f	Price Interest Point
3	PPP Theory	g	One Price Theory
4	LORO	j	Selling rate
5	IRF	h.	Interbank rate offer
6	GDR	a.	Issued in European Capital Market
7	YEN	e,	Japanese Currency
8	SWIFT	c,	Money transfer system at international level
9	Ask Rate	d.	Negotiated only in America
10	LIBOR	b	Interest Rate Futures

April 2023

Q.1.(a) Multiple Choice Questions (any 8): [8]

(6) The risk of loss in purchasing power because the value of investments does not keep up with inflation is called as _______.

(a) Concentration Risk

(b) Inflation Risk

(c) Liquidity Risk

(d) Transaction Risk

(7) _______ is a way of trading non-U.S. stocks on the U.S. exchange.

(a) ADR

(b) GDR

(c) IDR

(d) FDI

(8) ________ is currency held on deposit outside its home market.

(a) Eurobond

(b) Eurocurrency

(c) Euro credit

(d) Zero Coupon Bond

(9) _______ is the process of assessing, in a structured way, the case for proceeding with a project or proposal, or the project's viability.

(a) Project Appraisal

(b) Project Finance

(c) Project Measurement

(d) Project Performance

(10) According to _______ technique of FOREX risk management, a company dealing in international transactions must make all its payments in its domestic currency and must have the policy of accepting only domestic currency from the debtors.

(a) Matching

(b) Leading and Lagging

(c) Hedging

(d) Invoice in Home Currency

Q.1.(B) State whether the following statements are True or False (any 7): (07)

1) The Balance of Payment identity is CA+FA+RA=0

Ans: True. The Balance of Payments identity is often expressed as CA (Current Account) + FA (Financial Account) + CA (Capital Account) = 0, indicating that total debits must equal total credits in a country's balance of payments

2) Gold standard has proved to be a "fair weather friend".

Ans: False. The gold standard was historically used as a stable system for linking currency values to the price of gold, but it faced challenges during economic downturns and periods of financial instability, leading to its abandonment by most countries.

3) Nostro account points at "Our account with you"

Ans: False. Nostro account actually points at "Our account with you." It's the account a bank holds in a foreign currency in another bank.

4) Exporters sell foreign currencies for domestic currencies.

Ans: False. Exporters typically sell domestic currencies for foreign currencies when conducting international trade.

5) If AFM is positive, it represents premium on base currency.

Ans: False. If AFM (All Forward Margin) is positive, it represents a premium on the counter currency, not the base currency.

6) The call option is the right to sell an asset at a fixed date and price.

Ans: False. A call option gives the holder the right to buy an asset at a fixed date and price, not sell it.

7) In case of FPI, entry and exit are difficult.

Ans: False. In the case of Foreign Portfolio Investment (FPI), entry and exit are relatively easier compared to Foreign Direct Investment (FDI).

8) Net Present Value of Cash Inflow + Present Value of Cash Outflow.

Ans: False. Net Present Value (NPV) is calculated by subtracting the present value of cash outflows from the present value of cash inflows.

9) India is a tax haven country.

Ans: False. India is not typically considered a tax haven country. Tax haven countries are those with favorable tax regimes and regulations that attract foreign individuals and businesses seeking to minimize their tax liabilities.

10) Dumping means selling goods at high price in international markets.

Ans: False. Dumping refers to selling goods at a lower price in international markets than in the domestic market, often with the intention of gaining market share or driving competitors out of the market.

April 2024

Q.1. (a) Multiple Choice Questions (any 8): (08)

(1) _______ is the branch of economics that studies the dynamics of exchange rates, foreign investments, and how these affect international trade.

(a) International Finance

(b) International Marketing

(c) International Economics

(d) International Monetary System

(2) The asset price at which the investor can exercise an option is called _______ price.

(a) Strike

(b) Spot

(c) Future

(d) Forward

(3) Currency that is used as a unit of account, medium of exchange and store of value not only for transactions within the country, but also for international public and private transactions, is called as _______ currency.

(a) Vehicular

(b) Home

(c) Variable

(d) Foreign

(4) BBC Global 30, S&P Global 100, S&P Global 1200 are examples of _______

(a) International Equity Benchmarks

(b) Yankee Stock Offering

(c) Cross Listing of Shares

(d) ADRs

(5) _________ is the risk of exchange rate that creates an impact on the market value of a company.

(a) Economic Risk

(b) Transaction Risk

(c) Translation Risk

(d) Liquidity Risk

(6) FOREX market facilitate the conversion of one currency into another i.e. payment between exporters & importers. This function of FOREX Market can be referred as _______

(a) Transfer of Purchasing Power

(b) Credit Function

(c) Hedging Function

(d) Risk Management Function

(7) ________ is the process of assessing, in a structured way, the case for proceeding with a project or proposal, or the project's viability.

(a) Project Appraisal

(b) Project Management

(c) Risk Mitigation

(d) Risk Management

(8) ________ offers foreign individuals and businesses little or no tax liability in a politically and economically static environment.

(a) Tax Haven

(b) Offshore Banking Unit

(c) FOREX Market

(d) Tax Neutrals

(9) _______ involves the simultaneous buying and selling of an asset in order to profit from small differences in price.

(a) Hedging

(b) Speculation

(c) Arbitrage

(d) Investing

(10) ________ Exchange Rate is a system where the currency price is set by the forces of forex market i.e. demand and supply of currencies.

(a) Flexible

(b) Fixed

(c) Managed Float

(d) Gold

Q.1.(B) State whether the following statements are True or False (any 7): (07)

1) Unilateral Transfers are recorded under Capital Account of BOP.

Ans: False

2) FEMA was replaced by FERA

Ans: True

3) NPV is a non-discounted technique of Capital Budgeting

Ans: False

4) If the Quote is given as USD-INR 83.1550-75; This quote is called as "Direct Quote" in New York.

Ans: True

5) India is a Tax Haven nation.

Ans: False

6) There is easy entry and exit in FPI.

Ans: True

7) To be cross-listed, a company must comply with the requirements of all the stock exchanges in which it is listed.

Ans: True

8) Changes in market inflation cause changes in currency exchange rates.

Ans: True

9) Call option gives the right to buy an asset at a fixed date and price.

Ans: True

10) Under Bretton Woods system, countries could use USD as a medium of exchange for international settlements.

Ans: True