PVP 12

Code: **BA4T6F**

II MBA - II Semester - Regular Examinations JULY 2014

INTERNATIONAL FINANCIAL MANAGEMENT

Duration: 3 hours | Max. Marks: 70 M

SECTION-A

1. Answer any FIVE of the following: 5 x 2 = 10 M

a) Foreign Direct Investment (FDI)
b) Golden exchange standard
c) FEMA
d) Speculators
e) Over the counter
f) International fisher effect
g) LIBOR
h) Interbank settlement

SECTION – B

Answer the following: 5 x 10 = 50 M

2. a) Distinguish between Forward contracts and Future Contracts with a suitable example in two Country context.

OR

b) Why international financial management is important for a globalized firm.

3. a) Explain the types of exchange-rate exposure and how to manage exchange-rate risk exposure.

OR

b) Compute domestic equivalents of foreign currencies given the spot or forward exchange rates.

4. a) Explain and illustrate purchasing-power parity (PPP) and interest-rate parity.

OR

b) Describe how capital budgeting, in an international environment, is similar to or dissimilar from that in a domestic environment.

5. a) Explain different types of Euro bond and how does they affect the international stock market with the help of Euro credit issues.

OR

b) Explain different types of derivatives with suitable examples.

6. a) What are the different methods of payment in international trade.

OR

b) In the Modigliani-Miller equation, why is the market value of the levered firm greater than the market value of an equivalent unlevered firm?

SECTION – C

7. Case Study **1 x 10 = 10 M**

Britain may be in the front line of the Euro crisis, but it is not the only country affected. The Eurozone is a massive market for businesses from the United States, China, India, Japan, Russia and the other major world economic powers. China has considered lending money to Europe, they are that concerned that the Euro may collapse. Meanwhile, the International Monetary Fund (IMF), which was set up to help countries in economic difficulty, set aside hundreds of billions of dollars for a bailout of some of the Eurozone countries. The wider world is so keen to see the Euro survive — even if that means it has fewer members.

To preserve the Eurozone's massive consumer market a staggering 322 million Europeans use the Euro every day. It's the currency of seventeen nations. Besides daily activities, these people use the Euro to buy goods and services from overseas — if there was a collapse in its value, and then they would be less able to buy imports.

A collapse of the Euro or a situation where some European governments would be unable to repay their debt would have a huge, negative impact on the world economy. It would resemble the financial crisis of 2007 and 2008 (in truth, it could be much worse than that). At the very least, businesses around the globe would think twice about investing and taking on new staff while others might start to trim their operations and cut jobs. A global economic recession would be highly likely.

To protect the world financial system the banks around the globe have invested in the government debt of Eurozone countries. These banks also hold large amounts of Euros. If the current crisis gets much worse, then the government debt and currency that they hold will fall in value, which could undermine their own financial well-being. It could be like the 2007 and 2008 financial crash all over again, with the global banking system under threat. This would be bad news for everyone.

It's not just the 322 million people in the Eurozone which depend on their currency — there are 150 million people in African countries whose currencies are pegged to value the Euro. If the Eurozone fragments and the value of the Euro collapse, these African countries will see the value of currency collapse too.

Answer the following questions

a) What could be the strategy of China to overcome the debt issue from Euro-zone?

b) What are the steps taken to prevent global recession?

c) Define strategy could be adopted by IMF to help European government.

d) What will be the effect of this crisis on world economy?