



Avinashilingam Institute for Home Science and Higher Education for Women

(Deemed to be University under Category 'A' by MHRD, Estd. u/s 3 of UGC Act 1956)

Re-accredited with 'A+' Grade by NAAC. Recognised by UGC Under Section 12B

Coimbatore - 641 043, Tamil Nadu, India

Master's Degree Examination – June 2021

IV Semester

Class : II MBA

Major : Master of Business Administration/MBA-IT

Time: 3 Hours

Max. Marks: 100

17MBAC28F/29F / 17MBMC28F International Financial Management

PART A

10 x 1 = 10

Choose the Correct Answer

- The commonly accepted goal of the MNC is to:
 - Maximize short-term earnings
 - Maximize shareholder wealth
 - Minimize risk
 - Maximize international sales
- Which of the following is not a form of corporate control that could reduce agency problems for an MNC?
 - Stock options
 - Hostile takeover threat
 - Investor monitoring
 - All of the above
- An increase in the current account deficit will place _____ pressure on the home currency value, other things equal.
 - Upward
 - Downward
 - Upward or downward (depending on the size of the deficit)
 - None of the above
- When price elasticity of demand of a good is greater than one, expenditure on the good
 - Rises with a price fall
 - Declines with a price fall
 - Rises with a price rise
 - Remains the same irrespective of price rise or fall
- Which of the following is a legitimate reason for international investment?
 - Dividends from a foreign subsidiary are tax exempt in the United States.
 - Most governments do not tax foreign corporations.
 - There are possible benefits from international diversification.
 - International investments have less political risk than domestic investments.
- The *euro* is the name for
 - a currency deposited outside its country of origin.
 - a bond sold internationally outside of the country in whose currency the bond is denominated.
 - a common European currency.
 - a type of sandwich.
- The disadvantage of swaps is that they
 - Lack of liquidity
 - Suffer from default risk
 - Both A & B
 - B only
- Hedging by buying an option
 - Limits gain
 - Limits losses
 - Limits gain & losses
 - Has no limit on losses
- The cost of capital is
 - The minimum rate of return an investment project must generate in order to pay its financing costs.
 - The minimum rate of return an investment project must generate in order to pay its financing costs plus a reasonable profit.
 - The maximum rate of return an investment project must generate in order to pay its financing costs.
 - The maximum rate of return an investment project must generate in order to pay its financing costs plus a reasonable profit
- One assumption underlying the use of the cost of capital to analyze capital projects is that:
 - Current costs will remain the same
 - Capital structure will vary with the type of financing
 - Different risk projects are required to diversify the firm
 - The analyzed projects are of comparable risk to existing projects

Part B

5 x 6 = 30

Answer ALL questions

Each answer should not exceed 400 words or two pages

- 11.a. Explain the important to facilitate flow of international funds into the economy?
(or)
- 11.b. Indicate the features of international monetary system?
- 12.a. Describe the term "foreign exchange market" and the role and structure.
(or)
- 12.b. List out the differences between transaction exposures versus translation exposure?
- 13.a. Identify the differences between covered interest rate parity and uncovered?
(or)
- 13.b. "Spot and forward exchange rates are based on interest rate parity theorem" - Discuss with suitable examples.
- 14.a. What is systematic risk? Can it be reduced by international diversification?
(or)
- 14.b. What are important elements of a currency risk sharing agreement? Discuss with suitable example.
- 15.a. Define parallel loan. Difference between swap and parallel loan.
(or)
- 15.b. How capital budgeting decisions of any MNC may be different from domestic firms.

Part C

5 x 12 = 60

Answer ALL questions

Question No 20. Case is Compulsory

Each answer should not exceed 800 words or four pages

- 16.a. Analyze the concept of Balance of Payments and discuss the different accounts of BOP. Can a country run a current account deficit (surplus) indefinitely? Give reasons.
(or)
- 16.b. Examine the factors responsible for growing importance of international financial management.
- 17.a. Categorize the various types of risks and the advantage do currency options offer that are not available with futures or forward contracts
(or)
- 17.b. What do you understand by foreign exchange risk? What are the different external exposure management techniques which are used by importers and exporters?
- 18.a. Evaluate the forward market hedge, option market hedge and money market hedge
(or)
- 18.b. Differentiate between 'Foreign direct investment' and 'Portfolio Investment' and discuss the different strategies of portfolio investment.
- 19.a. An export company wants to raise capital from international markets. Outline the basic considerations the firm should take into account while making this international financing decision?
(or)
- 19.b. Point out the need for and the advantages of centralized cash management for a company which is involved in international business.

20. Case Study:(Compulsory Question)

Latvia has become the second European Union country to seek the International Monetary Fund's (IMF) help to stabilize its financial system. It is also asking for help from the European Union. The Latvian Prime Minister said the sum needed would be decided by talks with the IMF and EU. Latvia has fallen into recession and recently nationalized the country's second largest bank. The government invested \$ 353 m into the parex bank to help it survive after a run on its deposits. It also offered \$ 877 m in guarantees to its creditors. Latvia's economy, which grew by 50% between 2004 & 2007, Shrank 4.2% in the third quarter of this year, the sharpest economic contraction in the European Union. The Latvian Government has already started talks with the European Commission, the executive branch of the EU, on a possible rescue package for its economy. The IMF has said it has \$ 200 bn set aside to help out countries facing turmoil because of the current global financial crisis. It has also said it expects to provide help for some 24 countries.

Question:

- 1) What measures can the European Union take in order to undo the economic contraction?
- 2) What is the role of IMF towards the countries that have fallen into recession?
- 3) In what ways can Latvia use the financial aid from IMF to stabilize its financial system?
- 4) Explain the term Economic Recession in detail.
