

PGDM (FS) End Term Exam. Trim.V Batch: 2017-19. Sub: International Finance  
**K J SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH**  
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**PGDM (Financial Services) Trimester V Batch: 2017-19**  
**International Finance**  
**(End Term Examination)**

**Max. Marks: 50**

**Duration: 3 Hrs.**

**Instructions**

January 14, 2019

- (1) Question **No.1 is compulsory** which is of 14 marks.
- (2) Attempt any **THREE** from the rest, each of 12 marks.
- (3) Answer each new question on a fresh page.
- (4) Write all sub question of a main question together.
- (5) Don't write extra answers. Only first four will be assessed.
- (6) If these instructions are ignored, appropriate marks will be reduced.

Q.1 (a) Explain various factors that determines the exchange rate of a currency in spot and forward market.

(b) Explain how RBI maintains exchange rate stability in India.

Q.2 Following data is provided to you collected from a US multinational planning to start its subsidiary in India. You need to advise them about the viability of the subsidiary.

Initial Investment in Fixed Assets of the Project	USD 800 Million	Plant capacity which will be used fully	5 Million units per year which will be sold @ USD 90 per Unit
Variable cost of production and sale	USD 30 per Unit	Life of the project without any salvage value	5 years
Additional Fixed Cost	USD 40 Million	Method of Depreciation	Straight Line
Corporate Tax rate in India	35 %	Required Rate of Return by MNC	12 %
The current USD / INR rate is Rs. 71.50 per USD. This rate is expected to depreciate by 2 % every year from second year onwards.			

	Year 1	Year 2	Year 3	Year 4	Year 5
PV factor @ 12 %	0.893	0.797	0.712	0.636	0.567

Q.3 (a) Explain the difference between “Balance of Payment” and “Balance of Trade” with its

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significance.

(b) Do you think Classical thought on balancing Balance of Payment works? Give your view.

Q.4 (a) What are the pre-conditions to attract more FDI by a country?

(b) Explain different types of risks a multinational firm may face while doing business overseas and the methods to minimize them.

Q.5 (a) Explain the working of Depository Receipts in International Financial Markets.

(b) Explain the concept of Foreign Exchange Risk and Foreign Exchange Exposure.

Q.6 Write Short notes on any **TWO** of the following.

(a) Reasons for collapse of Bretton Woods system.

(b) Euro Bonds

(c) Nominal and Real Exchange Rate

End of the paper