Roll No __________ **Examination May-2014** Total no of page-2

MBA 926
INTERNATIONAL FINANCE
Paper ID- **A2531**

Maximum Marks:60 **Time 3 hours**

NOTE:

1.Attempt any four questions from section A. Each question is of 5marks.

2. Attempt four questions from section B, by selecting one question from each unit. Each question is of 8 marks.

3. Section C contains one case study which is compulsory and is of 8 marks.

SECTION A

Q1 a. What is mint parity found in gold standard?

b. Explain in detail ADR's and GDR's as a source of finance.

c. Suppose the United States imposes import restrictions on Japanese steel? What is likely to happen to the U.S. current account deficit? What else is likely to happen?

d. How are foreign exchange markets connected for trading activities?

e. Who are the principal users of forward market?

f. Distinguish between American option and European option.

SECTION B

UNIT I

Q2.What is balance of payment account? Explain what the two primary accounts are, and what having a surplus or deficit in these accounts implies. In which account will a deficit most likely lead to a depreciation of our currency if it is sustained over a long period of time? Why?

Q3. What was the difference between the traditional gold standard and the Bretton Woods system? When was Bretton Woods put in place, and why was it created? Why did Bretton Woods fail and when?

UNIT II

Q4. What are the major functions of foreign exchange markets and who are the participants in foreign exchange market.

Q5. Write down the expectations form of PPP, the uncovered interest parity condition and the Fisher open condition? Derive each one from the other two.

UNIT III

Q 6 (a) Since a forward market already existed, why was it necessary to establish currency futures and currency options contracts.

(b) What are the basic differences between forward and futures contracts?

Q7. How transaction exposure is measured? Explain various techniques for managing transaction exposure?

UNIT IV

Q8. Write brief note on the following:

a) Banker's acceptance

b) Functions of EXIM bank of India

Q9 a) What is the difference between a foreign bond and Euro bond?

b) Do you think factoring as a financial services product is superior to the conventional bank finance at international level? Comment

SECTION C

Q10. Case study

Oil Levies: The Economic Implications

BACKGROUND

The combination of weakening oil prices and the failure of Congress to deal with the budget deficit by cutting spending has led some to see the possibility of achieving two objectives at once: (1) protecting U.S. oil producers from "cheap" foreign competition and (2) reducing the budget deficit. The solution is an oil-import fee or tariff. A tax on imported crude and refined products that matches a world oil-price decline, for example, would leave oil and refined-product prices in the United States unchanged. Thus, it is argued, such a tax will have little effect on U.S. economic activity. It merely represents a transfer of funds from foreign oil producers to the U.S. Treasury. Moreover, it would provide some price relief to struggling U.S. refineries and encourage the production of U.S. oil. Finally, at the current level of imports, a $5/barrel tariff on foreign crude oil and a separate tariff of $10/barrel-equivalent on refined products would raise more than $11.5 billion a year.

QUESTIONS

1. Suppose the tariff were levied solely on imported crude. In an integrated world economy, who will bear the burden of the import tariff? Who will benefit? Why? What will be the longer-term consequences?
2. If a $10/barrel tariff were levied on imported refined products (but no tariff were levied on crude oil), who would bear the burden of such a tariff? Who would benefit? Why? What will be the longer-term consequences?
3. What would be the economic consequences of the combined $5/barrel tariff on imported crude and a $10/barrel tariff on refined oil products? How would these tariffs affect domestic consumers, oil producers, refiners, companies competing against imports, and exporters?
4. How would these proposed import levies affect foreign suppliers to the United States of crude oil and refined products?
5. During the 1970s, price controls on crude oil—but not on refined products—were in effect in the United States. Based on your previous analysis, what differences would you expect to see between heating oil and gasoline prices in New York and in Rotterdam (the major refining center in northwestern Europe)?

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