CB 60:40

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SEMESTER - III

Sub: International Financial Management (MFM-303)

Date: 06/07/2022 Total marks: 60 Time: 2.00pm to 4.30pm

SECTION – I

Q. 1. Fill in the blanks **(5)**

1. If the members of a preferential trade arrangement go so far as to eliminate all tariffs and quantitative import restrictions among themselves (100 percent preferences), then they form a ………………...
   a) Customs Union b) Free Trade Area
   c) Common Market d) Economic Union

2. One of the important functions of ………. was to provide reserve credit to member countries facing temporary balance-of-payments problems.
   a) World Bank b) IMF
   c) IDA d) IFC

3. ………………… type of foreign exchange transactions are settled after 2 business days from the date of the contract?
   a) Option b) Forward contract
   c) Spot contract d) Currency SWAPS

4. ……………………. is the exposure that arises from foreign currency denominated transactions which an entity is committed to complete.
   a) Translation exposure b) Transaction exposure
   c) Operating exposure d) None of the above

5. Hedging is done to avoid risk in foreign exchange rate.
   a) True b) False

Q. 2. Answer the following. (Any Two) **(20)**

1. What do you mean by Trading Blocks? Explain the various types of trading Blocks.
2. What are the various components of Balance of Payments? Explain.
3. What are the RBI Guidelines for Currency Options?
4. What are the risks and gains from cross-Border diversification?

Q. 3. Write notes on. (Any Two) **(10)**

1. World Bank
2. Settlement Date of FOREX transaction
3. CAPM

SECTION - II

Q. 4. Case Study **(15)**

The European Monetary System (EMS) refers to an arrangement established in 1979, whereby members of the European Economic Community (now the European Union) agreed to link their currencies to encourage monetary stability in Europe. The EMS aimed to create a stable exchange rate for easier trade and cooperation among European countries through an Exchange Rate Mechanism (ERM). The ERM was based on the European Currency Unit (ECU) – a currency unit composed of a basket of 12 European currencies weighted by gross domestic product (GDP).
The European Monetary System mainly relied upon the ECU and the existing exchange rate mechanism then. Exchange rates were only allowed to deviate within a certain range from the fixed central point, which was determined by the ECU.
In the EMS, exchange rate fluctuations of member countries' currencies were limited to 2.25% from the fixed central point, which was determined by the European Economic Community.
The European Monetary System aimed to achieve various macroeconomic goals:
Encouraging trade within Europe
Exchange rate stability among trading members
Controlled inflation within Europe
The EMS ensured currency stability in Europe during times of international market volatility.
The EMS was considered an important step towards the establishment of the EU and the single market in Europe.
The EMS promoted political and economic unity across Europe at a pivotal time in European history.
Fixed exchange rates affected different members of the EMS in different ways, which were not beneficial to all economies. It became evident in the 1992 crisis.
The EMS promoted a common monetary policy; therefore, raising or decreasing interest rates affected all economies differently – just like the exchange rate system.

Q.1. Describe the EMS with a brief history.
Q.2. What were the objectives of EMS?
Q.3. Explain the merits and demerits of EMS.

Q. 5. Answer the following: **(10)**

a) Explain the three variations of 'Fixed Exchange rate System' in detail.

OR

b) What is Purchasing Power Principle? Explain the 'Law of One Price' on which the tenet of PPP is based.