Roll No. □□□□□□□□□□□□ **Total No. of Pages : 03**

Total No. of Questions : 17

M.Com. (2019 Batch) (Sem.–3)

INTERNATIONAL FINANCIAL MANAGEMENT

Subject Code : MCOPAF 312-18

M.Code : 76832

Time : 3 Hrs. **Max. Marks : 60**

INSTRUCTIONS TO CANDIDATES :

1. **SECTION-A contains EIGHT questions carrying TWO marks each and students has to attempt ALL questions.**
2. **SECTION-B consists of FOUR Subsections : Units-I, II, III & IV. Each Subsection contains TWO questions each carrying EIGHT marks each and student has to attempt any ONE question from each Subsection.**
3. **SECTION-C is COMPULSORY and consists of ONE Case Study carrying TWELVE marks.**

SECTION-A

1. What is direct quote?
2. What are future contracts?
3. What is hedging?
4. What is FDI?
5. What is globalization?
6. What is bond?
7. What is real exchange rate?
8. What is capital budgeting?

SECTION-B

UNIT-I

9. Explain the nature and scope of International financial management.
10. Explain the determination of exchange rate in spot and forward market.

UNIT-II

11. Explain the trading strategies of future contract.

12. Explain different international sources of finance.

UNIT-III

13. How derivative instruments could be used for hedging international exposure?

14. Explain the management of transaction exposure.

UNIT-IV

15. Explain cross border acquisition and its purpose.

16. Explain different methods of international capital budgeting.

SECTION-C

17. Case study :

After the collapse of the Bretton Woods exchange rate system established in 1944; Europe's parity was called into question. To further implement European monetary integration the 'snake-in-thetunnel' system was introduced in 1972. Under this system the European currencies, the 'snake', were allowed to fluctuate within predetermined parameters against the US dollar the 'tunnel'. The European Monetary System (EMS) was created in 1979. Britain, under Margaret Thatcher, declined to join the European Exchange Rate Mechanism (ERM) although the new Chancellor of the Exchequer Nigel Lawson believed in a fixed exchange rate system and capped the pound sterling to the Deutschmark. Mr Lawson admired the German economy and felt that shadowing the Deutschmark would help Britain's competitiveness in Europe. However, as with the EMS, the German and British economies were not in sync as Europe was growing at a slower pace than Britain. Germany had an expansionary fiscal policy which required a tight monetary policy whereas Britain had to adopt a tight monetary policy without the fiscal expansion. This led to high rates of inflation as Britain struggled to keep £1 from exceeding 3DM. In 1990 Britain finally joined the ERM with £1 to 2.95 DM. Under ERM rules the pound was to vary no more than 3% above or below its entry rate. However the Deutschmark continued to strengthen while Britain fell further into recession. The strength of sterling, due to the ERM rules, hit British exports hard. The British government pleaded with the Bundesbank to lower its interest rates but this was not going to happen as Germany was still recovering from the reunification of East Germany. This can also be seen in the Euro area with the European Central Bank raising interest rates despite slow growth rates in some member countries. It was obvious that sterling could not compete with the Deutschmark and one speculator in particular noticed this. George Soros believed that sterling was highly overvalued and would soon collapse.

He began short selling sterling. Demand for sterling dropped rapidly pushing sterling dangerously close to the lower band enforced under the ERM rules. Nigel Lamont, then Chancellor of the Exchequer, agreed with the Bank of England that in order to strengthen the sterling they would sell their foreign reserves in exchange for sterling. This had no effect on pushing sterling back up as the Bank of England were buying sterling in the millions while Soros and others were selling in the billions. The Bank of England continued to buy sterling frantically, unaware of the extent to which they were being outpaced. This left the Bank of England with massive amounts of currency which was certain to be devalued. Britain had no choice but to raise interest rates, first to 12% then to 15% in an attempt to attract investors but it was too late. The government realised it would be too costly, in the long run, to continue to artificially prop up sterling in order to counteract the drop in demand. On the 16th September 1992 Norman Lamont announced that Britain was to leave the EMU. Sterling was now on the free market and was allowed to depreciate below its lower band against the Deutschmark and has floated freely since while still trying to keep inflation in line with the rest of Europe. September 16th 1992 became known as 'Black Wednesday' and although the incident ruined the reputation of Nigel Lamont and the Conservative government, it did not tarnish Britain's reputation in the financial markets. The devaluation of sterling brought down Britain's interest rate and inflation while achieving a rapid drop in unemployment. The growth rate of those countries which were forced to leave the EMU compared to those that stayed raised the question of why countries would want to stay in or join the EMU. The exit of sterling from the ERM was the first of its kind for the European Monetary Union and put its future in doubt. However Europe learned from the crisis and relaxed its currency bands and ultimately, with the formation of the Euro currency used a fixed European rate for its members as opposed to pegging its currencies to the Deutschmark. In keeping exchange rates fixed and allowing free movement of capital all EMU members have no independent monetary policies.

***Questions* :**

1. What are exchange rates?

2. Explain the terms 'appreciate' and 'depreciate' in terms of exchange rates. Can you pick out moments in the case study where the British pound appreciated or depreciated?

3. Briefly compare and contrast floating exchange rates and fixed exchange rates giving one example for each.

4. It is mentioned above that Bundesbank interest rates were too high for Britain to remain competitive. What is the connection with high interest rates and the rate of growth of an economy?

NOTE : Disclosure of Identity by writing Mobile No. or Making of passing request on any page of Answer Sheet will lead to UMC against the Student.