Q.P. Code:00003584

INTERNATIONAL FINANCE

[Time: 3.00 Hrs.] **[Marks: 80]**

N.B. : (1) Q. no. **1** is **compulsory**.

1. Attempt any **3** questions from question no. **2 to 5**, each carrying **20** marks.
2. Figures to the right indicate full marks.
3. Working notes should form the part of your answer.
4. Use of **simple calculator** is **allowed**.

1. (a) Select appropriate answer from alternatives given below and rewrite the sentences: 10

a) In international finance, the ____________ refers to the exchange rate regime where the value of a currency is determined primarily by the supply and demand for that currency in the foreign exchange market.
b) _________ is the risk that arises from fluctuations in exchange rates.
c) 3. __________ is a financial instrument that allows investors to speculate on or hedge against changes in exchange rates.
d) The ___________ theory suggests that exchange rates between two currencies should equal the ratio of the two countries' price levels.
e) _________ is the economic theory that suggests that, in the long run, exchange rates should move towards the level that equalizes the prices of an identical basket of goods and services in different countries.
f) The ___________ is an international financial institution that provides loans and financial assistance to countries experiencing balance of payments problems.
g) __________ is the process of converting one currency into another for commerce, trading, or tourism.
h) The ___________ is a measure of the responsiveness of the quantity demanded of one currency to a change in the price of another currency.
i) __________ is the risk associated with investing in foreign countries, arising from differences in political, economic, and social factors.
j) __________ is the practice of borrowing in one currency and investing in another currency where interest rates are higher, to profit from the difference in interest rates.

1. (b) Select whether following statements are **True** or **False** : 10

a) The gold standard was a system where currencies were pegged to the price of gold.
b) Currency appreciation occurs when the value of a currency decreases relative to other currencies.
c) Exchange rate regimes determine how exchange rates are determined and managed by governments.
d) A country with a current account surplus is exporting more goods and services than it imports.
e) The Bretton Woods Agreement established a fixed exchange rate system backed by a reserve currency.
f) In a fixed exchange rate system, the value of a currency is determined solely by market forces.
g) Arbitrage opportunities are more prevalent in efficient foreign exchange markets.

h) A trade deficit occurs when a country exports more goods and services than it imports.
i) Purchasing power parity (PPP) theory suggests that exchange rates should adjust to equalize the prices of identical goods and services in different countries.
j) The International Monetary Fund (IMF) primarily provides long-term loans to developing countries for infrastructure development projects

Q2.A Enumerate the characteristic components of International Monetary System. 10

Q2B. Elaborate on the main features of Bretton woods system. 5

Q2C.Describe the merits and demerits of Gold Standard 5

Q3.A .Enumerate the factors affecting the Foreign Exchange Rates and suggest some remedies to strengthen our currency. 10

Q3B. Elaborate difference between covered and uncovered Interest rate parity. 5

Q3C. Write a Short Note on Law on one price. 5

Q4.A Elucidate the functionality and structure of Indian Foreign Exchange Market. 10

Q4B. Elaborate on the difference between Merchant Transactions and Interbank Transactions 5

Q4C. Signify the importance of all foreign exchange components in the financial system. 5

Q5A .Elucidate the key components and intricacies of foreign bonds. 10

Q5B Distinguish between ADR and GDR. 5

Q5C Enumerate why Exchange rates play a significant role in balancing the economic system. 5