

Q.P. Code: 00005387

[Time: 03.00 Hrs]

[Marks:75]

Please check whether you have got the right question paper.

N.B:

1. Q.1 is compulsory and carries 20 Marks.
2. Q. 8 is compulsory and carries 15 Marks.
3. Attempt any four questions from Q.2, Q.3, Q.4, Q.5, Q6 and Q7. Each of these questions carry 10 Marks.
4. Figures to the right indicate full marks.

Q.1 (A) Select the correct option for the following questions/ statements: (10)

- 1) The _____ account includes all transactions that pertain to goods, services, and primary and secondary incomes (or income and current transfers). (Current, Capital, Financial)
- 2) The _____ account shows credit and debit entries for non-produced nonfinancial assets and capital transfers between residents and nonresidents. (Current, Capital, Financial)
- 3) _____, which are used as a unit of account and distributed to members of the IMF to bolster their foreign exchange reserves, are used to measure the financing provided by the IMF. (Special drawing rights, Current account deficit, Eurocurrency)
- 4) _____ is wholly socialist. (USA, China, Norway)
- 5) The only currency that was fully convertible to gold during the Bretton Woods system was the _____; other currencies were not immediately convertible to gold.
- 6) _____ rate risk is the possibility that interest rates will decline before the swap bank can release a counterparty on the other side of an interest rate swap agreement. (Interest, basis, mismatch)
- 7) In order to maintain a European zone of monetary stability, the European Monetary System (EMS) was established in _____ (1979, 1989, 1999)
- 8) An artificial international reserve known as the SDR was established by the IMF in _____ to somewhat relieve the strain on the dollar as the primary reserve currency. (1970, 1980, 1990)
- 9) International _____ refers to a study of international forces that influence the domestic conditions of an economy and shape the economic relationship between countries. (economics, business, history)

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- 10) In countries with a communist organizational system, the _____ runs everything.
(government, economy, capitalist)

(B) State whether the following statement is True or False: (10)

- 1) Based on interest rate curves at the time of commencement and the credit risk of the two parties, pricing is typically expressed as London Interbank Offered Rate (LIBOR), plus or minus a specific number of points.
- 2) Innovation Options evaluate efforts based on the flexibility they offer the company in the present, not on irrational forecasts about the future.
- 3) An up-and-in barrier option's option contract doesn't begin until the underlying asset's price crosses the predefined price barrier.
- 4) Calls grant the buyer the option—but not the obligation—to purchase the underlying asset at the option contract's designated strike price.
- 5) A forward contract is a customizable derivative contract between two parties to buy or sell an asset at a specified price on a future date.
- 6) Non-deliverable transactions are those in which the notional amount is never exchanged.
- 7) Liquidity risk represents the potential for the value of bonds to decline at the time they are for sale because there is not a consistently active market for the bonds.
- 8) P-notes are one of the investments that are categorized as offshore derivative investments.
- 9) Money put in a European account is known as a euro deposit.
- 10) A loan with a currency other than the lending bank's home currency is referred to as a eurocredit.

Q.2 Attempt any Two of the following: (10)

- (a) Explain how Demand and Supply of Currency works?
- (b) What is Balance of Trade? Explain its implications on Exchange Rate?
- (c) What is Globalization? Explain its Advantages and Disadvantages.

Q.3 Attempt any Two of the following: (10)

- (a) Write a short note on IMF.

- (b) Write a short note on Special Drawing Rights (SDRs).
- (c) Explain the limitations of the Barter System.

Q.4 Attempt any Two of the following: (10)

- (a) Explain the Purchasing Power Parity.
- (b) Write a short note on Arbitrage.
- (c) Explain the term Offshore Banking.

Q.5 Attempt any Two of the following: (10)

- (a) What are Euro Bonds? Explain its features.
- (b) Explain the Global Depository Receipts in detail with its merits and demerits.
- (c) Explain FPI with its advantages and disadvantages.

Q.6 Attempt any Two of the following: (10)

- (a) Explain the Hedging in detail.
- (b) Short Note on Zero cost collar.
- (c) Short Note on Asian options.

Q.7 Attempt any Two of the following: (10)

- (a) Explain different types of Interest Rate Swaps.
- (b) Explain the Payback Period Capital Budgeting technique in detail with an example.
- (c) Explain the IRR Capital Budgeting technique in detail with an example.

Q.8 Attempt any Three of the following: (15)

- (a) What are the risks involved in Foreign Bonds. Explain each type of risk involved in it.
- (b) Distinguish between Future and Forward Contract.
- (c) Explain the 6 types of Risks faced by businesses while doing international trade and how they manage them.
- (d) Explain the process involved in Risk Management.