



International Financial Management

7:00pm to 9:00pm

Semester – IV (Finance)

June 5, 2010

SECTION A (ONE MARKS)

- (1) What are the main objectives of cross-listing attempts?
(a) improve the liquidity of its existing shares and support a liquid secondary market for new equity issues in foreign markets
(b) establish a secondary market for shares used to acquire other firm
(c) both a and b
(d) none of the above

Answer : C

- (2) Government action to increase the value of domestic currency relative to others.
(a) Revaluation
(b) Appreciate
(c) Depreciate
(d) devaluation

Answer : A

- (3) What is the factors that influence exchange rate?
(a) change in the relative inflation rate
(b) change in the relative interest rate
(c) change in the relative income level
(d) all of the above

Answer : D

- (4) What is the parity conditions that result from the international parity relationship?
(a) the Fisher Effect
(b) The interest rate parity
(c) purchasing power parity
(d) all of the above

Answer : D

- (5) What is the key features of joint ventures?
(a) acquisitions of existing operations in foreign countries allow firms to quickly gain control over foreign operations as well as share of the foreign market
(b) firms can also penetrate, markets by establishing new foreign subsidiaries
(c) both a and b
(d) none of the above

Answer : C

- (6) Which of the following is correct statement?
(a) an exchange rate represents the price of a currency
(b) price of any asset is a function of demand
(c) the exchange rate is determined by the demand for that currency relative to the supply of that currency
(d) all of the above

Answer : D

- (7) These are expenses of the project and reduce foreign tax liability.
- (a) payments to parent for goods or services
 - (b) payments for technology, trademarks
 - (c) payments of interest to parent for intra-form debt
 - (d) distribution of dividends to parent

Answer : B

(8) The traditional way that a foreign subsidiary remits money to the parent is in the form of a dividend.

- (a) payments to parent for goods or services
- (b) payments for technology, trademarks
- (c) payments of interest to parent for intra-form debt
- (d) distribution of dividends to parent

Answer : C

(9) What are the factors to be considered in multinational capital budgeting?

- (a) exchange rate fluctuations
- (b) blocked funds
- (c) uncertain salvage value
- (d) all of the above

Answer : D

(10) An exchange of interest payments and principal in one currency for interest payments and principal in another currency.

- (a) interest rate swap
- (b) currency swap
- (c) cross currency interest rate swap
- (d) none of the above

Answer : B

(11) In which case will locational arbitrage most likely be feasible?

- (a) One bank's ask price for a currency is greater than another bank's bid price for the currency.
- (b) One bank's bid price for a currency is greater than another bank's ask price for the currency.
- (c) One bank's ask price for a currency is less than another bank's ask price for the currency.
- (d) One bank's bid price for a currency is less than another bank's bid price for the currency.

Answer : B

(12) Which of the following is true according to the text?

- (a) Forecasts in recent years have been very accurate.
- (b) Use of the absolute forecast error as a percent of the realized value is a good measure to use in detecting a forecast bias.
- (c) Forecasting errors are smaller when focused on longer term periods.
- (d) None of the above.

Answer : D

(13) Which of the following forecasting techniques would best represent the use of today's forward exchange rate to forecast the future exchange rate?

- (a) fundamental forecasting.

- (b) technical forecasting.
- (c) market-based forecasting.
- (d) mixed forecasting.

Answer : C

(14) Which of the following is the least effective way of hedging transaction exposure in the long run?

- (a) long-term forward contract.
- (b) parallel loan.
- (c) currency swap.
- (d) money market hedge.

Answer : D

(15) The real cost of hedging payables with a forward contract equals:

- (a) the nominal cost of hedging minus the nominal cost of not hedging.
- (b) the nominal cost of not hedging minus the nominal cost of hedging.
- (c) the nominal cost of hedging divided by the nominal cost of not hedging.
- (d) the nominal cost of not hedging divided by the nominal cost of hedging.

Answer : A

(16) What are the features of a currency swap?

- (a) exchange equal initial principal amounts of two currencies at the spot exchange rate
- (b) exchange a stream of fixed or floating interest rate payments in their swapped currencies for the agreed period of the swap
- (c) re-exchange the principal amount at maturity at the initial spot exchange rate
- (d) all of the above

Answer : D

(17) If the interest rate is lower in the U.S. than in the United Kingdom, and if the forward rate of the British pound is the same as its spot rate:

- (a) U.S. investors could possibly benefit from covered interest arbitrage.
- (b) British investors could possibly benefit from covered interest arbitrage.
- (c) neither U.S. nor British investors could benefit from covered interest arbitrage.
- (d) A and B

Answer : A

(18) Multinationals have to mesh corporate strategy with host country industrial development policies.

- (a) Multiple operating environments
- (b) Political demands
- (c) Global competitive game
- (d) Currency fluctuations

Answer : B

(19) When the currency becomes less valuable relative to others.

- (a) Revaluation
- (b) Appreciate
- (c) Depreciate
- (d) devaluation

Answer : C

(20) The economic performance of a multinational is measured in multiple currencies which result in accounting, transaction and economic exposure.

- (a) Multiple operating environments
- (b) Political demands
- (c) Global competitive game
- (d) Currency fluctuations

Answer : D

() SECTION B

(21) _____ helps promotes foreign direct investment in developing countries by providing guarantees to investors against non-commercial risks.

- (a) IBRD
- (b) IDA
- (c) IFC
- (d) MIGA

Answer : D

(22) _____ is a currency forecasting technique that involves the use of historical price data to predict future values.

- (a) market-based forecasting
- (b) fundamental analysis
- (c) technical analysis
- (d) charting

Answer : C

(23) _____ act as intermediaries between the banks.

- (a) commercial banks
- (b) customers
- (c) brokers
- (d) none of the above

Answer : C

(24) _____ of a country is a record of international transactions between residents of one country and the rest of the world over a specified period, usually a year.

- (a) balance of payments
- (b) capital outflow
- (c) net capital outflow
- (d) capital account

Answer : A

(25) _____ uses domestic plants as a production base for exporting to foreign markets.

- (a) Turnkey projects
- (b) Licensing
- (c) Exporting
- (d) franchising

Answer : C

(26) _____ links inflation and interest rate.

- (a) Unbiased forward rate
(b) The International Fisher Effect
(c) The Fisher Effect
(d) Purchasing Power parity

Answer : C

- (27) The premium of a currency put option will increase if:
(a) the volatility of the underlying asset goes up.
(b) the time to maturity goes up.
(c) the spot rate declines.
(d) none of the above

Answer : D

(28) For locational arbitrage to be possible, one bank's ask rate must be higher than another bank's bid rate for a currency.

- (a) true.
(b) false.

Answer : B

- (29) A common purpose of inter-subsidiary leading or lagging strategies is to:
(a) allow subsidiaries with excess funds to provide financing to subsidiaries with deficient funds.
(b) assure that the inventory levels at subsidiaries are maintained within tolerable ranges.
(c) change the prices a high-tax rate subsidiary charges a low-tax rate subsidiary.
(d) measure the performance of subsidiaries according to how quickly subsidiaries remit dividend payments to the parent.

Answer : A

(30) Currency options are only traded on exchanges. That is, there is no over-the-counter market for options.

- (a) true.
(b) false.

Answer : B

(31) _____ measures the impact of an exchange rate change on the net present value of expected future cash flows from a foreign investment project.

- (a) translation exposure
(b) transaction exposure
(c) economic exposure
(d) none of the above

Answer : C

() SECTION C

(32) The forward market is especially well-suited to offer hedging protection against

- (a) translation risk exposure
(b) transactions risk exposure.
(c) political risk exposure.
(d) taxation.

Answer : B

(33) Which of the following is False?

- (a) the capital account is that balance of payments account in which all cross-border transaction involving financial assets are listed
- (b) the balance of payments account of a country is a record of international transactions between residents of one country and the rest of the world over a specified period
- (c) a capital account surplus indicates net capital outflows or positive net foreign investment
- (d) none of the above

Answer : C

(34) What are ten areas that have the impact of FDI on host country?

- (a) social environment
- (b) employment
- (c) host country business
- (d) all of the above

Answer : D

(35) Countries that impose relatively low tax rates on corporate earnings are more likely to attract FDI.

- (a) privatization
- (b) changes in restrictions
- (c) potential economic growth
- (d) tax rates

Answer : D

(36) Which of the following is not mentioned in the text as a constraint interfering with the MNC goal?

- (a) economic constraints.
- (b) regulatory constraints.
- (c) environmental constraints.
- (d) ethical constraints.

Answer : A

(37) Corporations tend to make only limited use of technical forecasting because it typically focuses on the near future, which is not very helpful for developing corporate policies.

- (a) true.
- (b) false.

Answer : A

(38) Following FASB Statement No. 52, gains or losses from currency translation are shown:

- (a) on the income statement as currency gains (or losses).
- (b) on the balance sheet as an adjustment to owners' equity.
- (c) on the balance sheet as an adjustment to cash.
- (d) nowhere because gains or losses from currency changes need not be shown..

Answer : B