

Roll No.

Total No. of Pages : 03

Total No. of Questions : 10

MBA (Sem.-4)

**INTERNATIONAL FINANCE & FINANCIAL DERIVATIVES**

Subject Code :MBA-915-18

M.Code :77814

Date of Examination: 09-12-2025

Time : 3 Hrs.

Max. Marks : 60

**INSTRUCTIONS TO CANDIDATES :**

1. SECTION-A contains EIGHT questions carrying TWO marks each and students have 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 students have to attempt any ONE question from each Subsection.
3. SECTION-C is COMPULSORY and consist of ONE Case Study carrying TWELVE marks.

**SECTION-A**

**1. Write a short note on the following:**

- a) What are the challenges in International Financial Management(IFM)?
- b) Explain the functions and structure of the Foreign Exchange Market.
- c) Define the Fisher Effect and its implications in international finance.
- d) What are the different short-term sources of international finance?
- e) What is arbitrage in the context of futures contracts?
- f) Explain the concept of swaption and its uses.
- g) What are credit derivatives? How are they used for risk management?
- h) What is country risk analysis and why is it important in foreign exchange risk management?

## **SECTION-B**

### **UNIT-I**

2. Why is it important to study International Financial Management? Explain recent changes and challenges in International Financial Management.
3. What is Balance of Payment? Elaborate different components of Balance of Payment.

### **UNIT-II**

4. Explain the concept of Purchasing Power Parity (PPP) and Interest Rate Parity (IRP). How do these parity conditions help in predicting exchange rate movements?
5. Discuss the various international sources of finance available to multinational corporations. Compare their risk-return profiles with suitable examples.

### **UNIT-III**

6. Explain the role of foreign exchange derivatives (forwards, futures, options) in managing currency risk. How do businesses use them to hedge against foreign exchange exposure?
7. Discuss the significance of Value-at-Risk (VaR) in risk management. How is VaR calculated and what are its limitations in financial decision-making?

### **UNIT-IV**

8. Explain different types of interest rate swaps and currency swaps. Elaborate pricing of Swaps.
9. What are Transaction Exposure and Economic Exposure? How these exposures can be managed?

## **SECTION-C**

### **10. Case Study :**

XYZ Ltd., a leading Indian pharmaceutical company, has recently expanded its operations into the European and North American markets. The company has entered into long-term supply contracts with distributors in Germany, the United Kingdom and the United States, with payments to be received in Euros (EUR), British Pounds (GBP) and

US Dollars (USD). While the expansion has significantly increased the company's revenue potential, it has also exposed XYZ Ltd. to substantial foreign exchange (forex) risks, which could impact its profitability.

In the past six months, XYZ Ltd. has noticed considerable fluctuations in exchange rates. The Indian Rupee (INR) has depreciated against the USD but appreciated against the EUR and GBP. This has created an uneven impact on its revenues—while dollar receivables have become more profitable, payments from European markets have resulted in losses when converted to INR.

To manage this risk, the company's finance team is exploring different forex hedging strategies, including:

1. **Forward Contracts** - Locking in exchange rates for future receivables to mitigate uncertainty.
2. **Options Contracts**- Using currency options to protect against unfavorable movements while allowing potential gains from favorable fluctuations.
3. **Currency Swaps** - Engaging in swap agreements to exchange currency obligation with counterparties.
4. **Natural Hedging** - Adjusting operational expenses to align with foreign currency inflows (e.g., sourcing raw materials from the same countries where the company exports).

The company's CFO is concerned about the cost implications of each hedging strategy and is seeking an optimal approach that balances risk mitigation and financial feasibility.

#### **Discussion Questions:**

- a) What are the major types of foreign exchange risks that XYZ Ltd. is exposed to in its international business operations? How can these risks impact its financial performance?
- b) Evaluate the different hedging strategies available to XYZ Ltd. Which method would be most effective in managing its foreign exchange risks, considering both cost and risk reduction?
- c) How can macroeconomic factors, such as interest rate changes by the US Federal Reserve or the European Central Bank, influence XYZ Ltd.'s forex risks? What should the company monitor to make informed hedging decisions?
- d) Besides financial hedging instruments, what operational strategies can XYZ Ltd. implement to reduce its forex risk exposure and maintain stable profit margins?

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