BIRLA INSTITUTE OF TECHNOLOGY, MESRA, RANCHI
(END SEMESTER EXAMINATION)

CLASS:	**IMSc**		**SEMESTER : IX**
BRANCH:	**QEDS**		**SESSION : MO/2025**

SUBJECT: ED525 INTERNATIONAL FINANCE

TIME:	**3 Hours**		**FULL MARKS: 50**

INSTRUCTIONS:
1. The question paper contains 5 questions each of 10 marks and total 50 marks.
2. Attempt all questions.
3. The missing data, if any, may be assumed suitably.
4. Before attempting the question paper, be sure that you have got the correct question paper.
5. Tables/Data hand book/Graph paper etc. to be supplied to the candidates in the examination hall.

			CO	**BL**
Q.1	a. What is and how does the mechanism analyzed by Hume, describe how balance of payments equilibrium between two countries, A and B, would be restored after a transfer of income from B to A. b. Explain how the Law of One Price forms the microeconomic foundation of the theory of Purchasing Power Parity (PPP). Can PPP hold even when LOP fails? Explain.	[5+5]	1	1, 3, 5
Q.2	Suppose Modiji selects you as his Finance Minister. To win over people's support, you suggest a strategy of a temporary tax cut that will raise disposable income in people's hands. But you are also a student of International Finance, so now evaluate in detail (complete derivation of all concerning markets) the effect this would have on the INR/$ exchange rate. How would your evaluation change if this is made a permanent fiscal policy (long run)? Is there any crowding out happening? Why and how.	[5+5]	2	1 2 3
Q.3	Bring up at least five arguments to justify hedging of financial assets of a company be it through managerial hedging or corporate hedging.	[10]	3	4 5
Q.4	a. If 4.2% and 6.8% are respectively the per annum US dollar and Canadian dollar borrowing rates facing a US firm that wishes to remain hedged, and the spot exchange rate of US $ to Canadian $ is 1.385 and forward of Canadian $ can be bought at the rate 1.4, should that firm borrow in US or Canadian dollars if repayment is to be done in 5 years? b. Explain how firms playing in global markets use the techniques of "leading" and "lagging" as part of exchange rate risk management strategies.	[5+5]	4	2 4
Q.5	a. Discuss the economic rationale behind reinsurance. Briefly explain the major types of reinsurance and their core functions in risk management. How does retrocession extend the risk-spreading mechanism within the global insurance market? b. Explore how global multinational banks/financial institutions underpin the oil market's operations while adapting to the challenges of sustainability and geopolitical uncertainty.	[5+5]	5	5 6

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