GALGOTIAS UNIVERSITY

ADMISSION NUMBER

School of Finance and Commerce

Master of Business Administration in Financial Management
Semester End Examination - Jun 2024

Duration : 180 Minutes
Max Marks : 100

Sem II - H1PE205T - International Financial Management

General Instructions
Answer to the specific question asked
Draw neat, labelled diagrams wherever necessary
Approved data hand books are allowed subject to verification by the Invigilator

1)	Define International Parity Relationships in the context of international finance.	K1(2)
2)	Explain the monetory approach to BOP adjustment?	K2(4)
3)	Discuss the impact of exchange rate fluctuations on cash management decisions for multinational corporations.	K2(6)
4)	Explain the PPP theory? Is it applicable to both short term & long term?	K3(9)
5)	Show how a multinational corporation which faces political risk in one of its foreign subsidiaries, propose potential mitigation strategies.	K3(9)
6)	"Do the different methods of translation arrive at different sizes of translation exposure." Comment	K5(10)
7)	Differentiate between Domestic and International Financial Management?	K4(12)
8)	Correlate the various monetary and non-monetary measures to correct deficit in balance of payment?	K5(15)
9)	Present the methods commonly used to measure foreign exchange rate risk.	K5(15)
10)	Globalization has led to increased opportunities for international trade, but it also exposes businesses to various risks, particularly currency risk. Fluctuations in exchange rates can significantly impact the profitability of international transactions. This case study explores how a multinational corporation, XYZ Inc., manages currency risk in its international operations. XYZ Inc. is a multinational corporation based in the United States, specializing in the manufacturing and distribution of electronic goods. The company has operations in multiple countries, including manufacturing facilities in China, distribution centers in Europe, and	K6(18)

sales offices in Latin America. In recent years, XYZ Inc. has experienced rapid growth in its international sales. However, the fluctuating exchange rates between the U.S. dollar (USD) and other currencies have posed challenges for the company. For example, a strengthening USD can reduce the competitiveness of XYZ Inc.'s products in foreign markets, while a weakening USD can erode profit margins on sales denominated in foreign currencies. To mitigate currency risk, XYZ Inc. has implemented several risk management strategies: 1. Natural Hedging: The company uses natural hedging by matching its revenues and expenses in the same currency whenever possible. For instance, revenues generated from sales in euros are used to pay for expenses incurred in Europe. 2. Forward Contracts: XYZ Inc. enters into forward contracts to lock in exchange rates for future transactions. By doing so, the company can hedge against potential adverse currency movements. 3. Currency Options: In addition to forward contracts, XYZ Inc. uses currency options to protect against unfavorable exchange rate fluctuations while retaining the flexibility to benefit from favorable movements. 4. Diversification: The company diversifies its geographic presence to reduce concentration risk in any single currency or market. This diversification helps mitigate the impact of adverse currency movements in specific regions. Questions: (a) What are the main currency risks that XYZ Inc. faces in its international operations? (b) Discuss how diversification helps XYZ Inc. manage currency risk in its international operations. (c) Evaluate the impact of currency risk on XYZ Inc.'s financial performance over the past few years. (d) Assess the potential challenges that XYZ Inc. may face in managing currency risk in the future.