

School of Business

**Bachelor of Business Administration
Semester End Examination - Jun 2024**

**Duration : 180 Minutes
Max Marks : 100**

Sem IV - D1UA408T International Finance

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) TechGlobe Electronics Pvt. Ltd. is a successful manufacturer of consumer electronics such as smartphones, tablets, and smart home devices based in Bangalore, India. Over the years, the company has built a strong presence in the domestic market and is now considering expanding its operations into the United States to tap into new opportunities and diversify its revenue streams. List and briefly explain the key risks faced by TechGlobe Electronics Pvt Ltd operating in the global financial environment. K3(3)

- 2) You are a financial analyst working for a multinational corporation (MNC) considering potential investment opportunities in emerging markets. The MNC operates in various industries and is seeking to expand its global footprint by investing in emerging markets with high growth potential. However, investing in these markets comes with inherent political risks, including instability, policy uncertainty, and regulatory changes that can significantly affect the success of investment projects. K4(4)
Analyze the role of political risk in international capital budgeting decisions. Using real-world examples, discuss how political instability, government policies, and regulatory changes in host countries can affect the profitability and risk of multinational investment projects

- 3) In the late 2000s, several Eurozone countries faced mounting debt levels, exacerbated by the global financial crisis. Greece, Portugal, Ireland, Spain, and Italy, often referred to as the PIIGS countries, were particularly vulnerable due to high public debt, budget deficits, and weak economic fundamentals. These vulnerabilities were largely hidden during the pre-crisis boom years when cheap credit flowed freely across borders. K3(6)

Apply critical thinking skills to analyze how economic crises, like the global financial crisis of 2008 and the Eurozone sovereign debt crisis, tested the resilience of the Euro and the European Economic and Monetary Union.

- 4) Solve how many rupees Shri Ras Bihari Ji Ltd, a New Delhi based firm, will receive or pay for its following four foreign currency transactions:
(i) The firm receives dividend amounting to Euro 1,12,000 from its French Associate Company.
(ii) The firm pays interest amounting to 2,00,000 Yens for its borrowings from a Japanese Bank.
(iii) The firm exported goods to USA and has just received USD 3,00,000.
(iv) The firm has imported goods from Singapore amounting to Singapore Dollars (SGD) 4,00,000. K6(6)
- 5) As the financial manager of GlobalTech Corp, responsible for managing transaction exposure to fluctuations in the Chinese yuan (CNY) exchange rate against your domestic currency, understanding fluctuation trends is crucial. Fluctuations in exchange rates can be influenced by various factors, including economic indicators, geopolitical events, central bank policies, and market sentiment. K6(6)
- 1) Discuss how fluctuations in the Chinese yuan's exchange rate against your domestic currency could impact your company's transaction exposure.
- 6) Analyze the factors influencing capital mobility and the role of capital controls in managing financial risks in emerging economies. What are the primary factors driving capital mobility in emerging economies, and how do governments utilize capital controls to mitigate financial risks associated with volatile capital flows? K4(8)
- 7) Suppose a country experiences a sudden increase in foreign direct investment (FDI). Discuss the potential implications for its balance of payments and exchange rate stability. K3(9)
- 8) Imagine a scenario where a country, "Econonia," implements a series of aggressive trade policies aimed at boosting domestic industries and reducing reliance on imports. These policies include imposing high tariffs on imported goods, providing subsidies to domestic producers, and implementing strict regulations favoring local businesses. Initially, these measures might seem beneficial for protecting domestic industries and creating jobs within the country. K3(9)
- Identify the key government policies that have had a significant impact on the current account balance of Econonia?
- 9) Imagine you are a portfolio manager responsible for managing currency risk in a global investment portfolio. a hypothetical scenario where you manage a global investment portfolio K5(10)

denominated in multiple currencies, including USD, EUR, GBP, and JPY. Your portfolio includes investments in various assets such as stocks, bonds, and commodities across different countries. Currently, the exchange rates are as follows: 1 USD = 0.85 EUR; 1 USD = 0.75 GBP; 1 USD = 110 JPY.

Discuss how you would incorporate currency options into your risk management strategy to protect against adverse exchange rate movements while preserving upside potential.

- 10) In September 2015, Volkswagen became embroiled in a major scandal known as the "Dieselgate" scandal. It was discovered that Volkswagen had installed software in their diesel vehicles that could detect when they were undergoing emissions testing, allowing the cars to produce lower emissions during testing than they did during regular driving conditions. This manipulation of emissions tests affected millions of vehicles worldwide. The repercussions of the Dieselgate scandal were significant for Volkswagen. It faced numerous legal challenges, including lawsuits from customers, shareholders, and regulatory authorities. The company's reputation was severely damaged, leading to a decline in sales and market share. Additionally, Volkswagen incurred substantial financial costs related to legal settlements, fines, and recalls.

K4(12)

1) Explain the key risks faced by multinational corporations operating in the global financial environment, and what strategies might you construct to effectively mitigate these risks while maximizing opportunities for growth and profitability? (6 marks)

2) What were the primary risks that multinational corporations like Volkswagen faced in the aftermath of the "Dieselgate" scandal, and how can such companies develop strategies to mitigate these risks while capitalizing on opportunities for growth and profitability in the global financial environment? (6 marks)

- 11) Econonia, a developing nation with a diverse economy reliant on exports of agricultural products, manufacturing goods, and services such as tourism. Econonia's current account primarily comprises trade in goods and services, net primary income (such as wages and profits), and net secondary income (like foreign aid and remittances). The data reveals a trade surplus, indicating that Econonia exports more goods and services than it imports. This surplus is driven by robust exports of agricultural produce and manufactured goods, along with a steady influx of tourism revenue. The capital account records capital transfers and the acquisition or disposal of non-financial assets. In Econonia's case, there's a notable influx of foreign investment in infrastructure projects and acquisitions of local businesses. Additionally, the government has received grants and donations for development initiatives, contributing to a surplus in the capital account. The financial

K6(12)

account tracks cross-border investments in financial assets like stocks, bonds, and foreign direct investment (FDI). Econonia has witnessed significant FDI inflows, particularly in sectors like technology and renewable energy. Moreover, there's a notable increase in foreign portfolio investment in the country's stock market and government bonds. Upon consolidating the current, capital, and financial accounts, Econonia demonstrates a surplus in its balance of payments. The surplus reflects the country's attractiveness to foreign investors, strong export performance, and prudent fiscal policies. However, Econonia should monitor fluctuations in global commodity prices, exchange rates, and geopolitical developments to sustain its favorable balance of payments position.

Read the case and answer the following questions:

1) Elaborate what role do capital transfers and non-financial asset acquisitions play in Econonia's capital account surplus? (6 marks)

2) How might fluctuations in global commodity prices and exchange rates affect Econonia's trade balance and financial stability? (6 marks)

12)

TechGlobal Inc., with operations spanning across various countries. The company manufactures and sells electronic gadgets globally. TechGlobal Inc. prepares its financial statements in its reporting currency, the US dollar (USD). However, its subsidiaries in different countries conduct transactions in their local currencies, such as the Euro (EUR), Japanese Yen (JPY), and Chinese Yuan (CNY). When the financial statements of the subsidiaries in Europe and Japan are translated into USD for consolidation, their revenues and profits will decrease. Conversely, if the USD weakens against these currencies, reported earnings will increase.

K5(15)

1) In light of the above scenario assess the potential impact of translation exposure on the company's consolidated financial performance and shareholder value. (7 marks)

2) Explain how translation exposure can impact competitive positions of the organizations. (8 marks)