

INDIAN INSTITUTE OF MANAGEMENT AND COMMERCE
SUBJECT: INTERNATIONAL FINANCIAL MANAGEMENT
III SEM
QUESTION BANK

UNIT I

1. What core variable distinguishes International Financial Management (IFM) from domestic financial management?
 2. Define political risk as faced by a Multinational Corporation (MNC).
 3. What is meant by the term market imperfections in global trade?
 4. Name two global financing instruments that an MNC can use to source equity capital from foreign investors.
 5. How does economic liberalisation act as a catalyst for the growth of international finance?
 6. Give an example of an expanded opportunity set available to an MNC that a purely domestic firm cannot access.
 7. What is the difference between a Foreign Bond and a Eurobond?
 8. Under the Classical Gold Standard, how were exchange rates between two national currencies determined?
 9. What major structural flaw or issue led to the abandonment of the Gold Standard during the interwar period?
 10. Which dominant global currency sat at the absolute center of the Bretton Woods System?
 11. Name the two prominent global financial institutions established during the Bretton Woods Conference of 1944.
 12. What defines the modern Flexible/Floating Exchange Rate Regime operating today?
 13. What are Special Drawing Rights (SDRs), and which international body holds them?
- Part 3: Balance of Payments (BoP) Accounting Principles

14. Under what accounting system architecture is a Balance of Payments (BoP) statement systematically constructed?
15. What is the fundamental difference between autonomous transactions and accommodating transactions in BoP?
16. In BoP accounting, why are exports recorded strictly as a credit entry (+)?
17. A domestic resident sends a cash gift to a relative living abroad. Should this transaction be recorded as a debit or a credit in the home country's BoP?
18. What specific sub-category within the Current Account tracks the import and export of physical merchandise?
19. Distinguish between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) regarding management control.
20. Which specific account tracks the central bank's intervention using gold and foreign currencies to balance net deficits or surpluses?

• UNIT II

1. Why is the global Foreign Exchange (Forex) market categorized as an Over-the-Counter (OTC) market rather than an exchange-traded market?
2. Which market participants act as the primary market makers by continuously quoting bid and ask prices in the interbank market?
3. What is the standard settlement time frame (Value Date) for a conventional Spot Market transaction across most major currency pairs?

4. Define the term foreign exchange swap (FX Swap).
 5. What is the fundamental difference between a hedger and a speculator in the forward exchange market?
 6. Define a Direct Quote from the perspective of an investor based in India.
 7. If the USD/INR exchange rate is quoted as Bid: ₹86.20 / Ask: ₹86.35, at which exact rate will a commercial bank buy USD from an exporter?
 8. Write the formula used to calculate the Bid-Ask Spread percentage on a currency quote.
 9. What differentiates the Real Exchange Rate (RER) from the standard Nominal Exchange Rate?
 10. Define the Real Effective Exchange Rate (REER) and state what it measures at a macroeconomic level.
 11. If the spot rate of a currency is \$1.20 and the 90-day forward rate is \$1.18, is the foreign currency trading at a forward premium or a forward discount?
 12. Write the standard formula used to calculate the annualized forward premium or discount percentage using a 360-day year convention.
 13. If Spot USD/INR = ₹86.00 and the 180-day forward rate is ₹87.50, what is the annualized forward premium percentage of the USD?
 14. What basic economic theory states that the forward premium or discount on a currency pair should exactly equal the interest rate differential between the two countries?
 15. If the domestic inflation rate is significantly higher than the foreign inflation rate, what does Purchasing Power Parity (PPP) predict will happen to the domestic currency's spot exchange rate?
 16. Explain how a trader executes two-point spot arbitrage when a currency is mispriced across two different geographic locations.
 17. A currency dealer quotes USD/INR as ₹86.10/25. Calculate the absolute spread value per dollar earned by the dealer.
 18. Under Interest Rate Parity (IRP), if the spot rate (Direct Quote) is ₹86.00, the domestic annual interest rate is 8%, and the foreign annual interest rate is 3%, calculate the theoretical 1-year forward rate.
 19. What specific arbitrage strategy does an investor deploy when the actual market forward rate is lower than the theoretical Interest Rate Parity equilibrium rate?
 20. Why does Covered Interest Arbitrage (CIA) require the immediate use of a forward contract rather than waiting for maturity to convert funds at the future spot rate?
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