

**International Islamic University Chittagong**

Department Of Business Administration

MBA Mid-Term-Examination

Semester: First (Autumn -2019)

Course Title: International Financial Management

Time – 3 hours

Code: FIN- 5504

Full Marks – 40

*[Answer any three (03) of the followings. Figures in the right margin indicate full marks]*

**Question: 1**

- a. Explain how the existence of theory of comparative advantage relates to the need for international business. 03
- b. Explain in brief the common methods used to conduct international business. 04
- c. What factors cause some firms to become more internationalization than others? 03

**Question: 2**

- a. How equilibrium spot exchange rate is determined? 02
- b. What kinds of impact we may observe, in international trade due to the change in exchange rate? 02
- c. For each of the following six scenarios, say whether the value of the Dollar will appreciate, depreciate or remain the same relative to the Japanese Yen 03
  - (i). The growth rate of national income is higher in the USA than in Japan.
  - (ii). Inflation is higher in the USA than in Japan.
  - (iii). Prices in Japan and USA are rising at the same rate.
  - (iv). Real interest rate are higher in the USA than in Japan.
  - (v). The USA imposes new restrictions on the ability of foreigners to buy American companies and real state.
  - (vi). USA wage rise relative to Japanese wage, while American Productivity falls behind Japanese Productivity.
- d. How can a central bank use indirect intervention to change the value of a currency? 03

**Question: 3**

- a. What is balance of payments? Point out the components of balance of payments accounts. 03
- b. Explain in brief the various factors that influence international trade flows. 03
- c. From the following transactions prepare a Balance of Payments statement of Bangladesh. Assume that Bangladesh records all of its transactions in US\$. 04

Merchandise Imports \$400,000 and exports \$150,000.

- i. Received unilateral transfer from Japan worth \$50,000 for infrastructure development.
- ii. FDI inflows \$400,000 and outflows \$100,000
- iii. Purchase of Euro equivalent to \$ 50,000
- iv. It provides medicine to Uganda worth \$100,000 for the victim of Aids.
- v. The US first lady visited Bangladesh along with her delegates and total spending was \$200,000 by the whole team.

ICC provides \$150,000 to Bangladesh for enhancing physical facilities of players in Bangladesh.

**Question: 4**

- a. What is arbitrage? Define and differentiate various types of arbitrage. 03
- b. Explain the concept of interest rate parity. Provide the rationale for its possible existence. 07

James Chang, a foreign exchange trader at J. P. Morgan chase, can invest \$5 million or the foreign currency equivalent of the bank's short-term funds in a covered interest arbitrage with Denmark. He has the following quotes:

Spot exchange rate	:	DKr 7.500/\$
Three month forward rate	:	DKr 7.5372/\$
Three month dollar interest rate	:	3% per year
Three month Krone interest rate	:	5% per year

**Can James Chang Make a covered interest arbitrage**