**International Finance**

**Dec 2020**

**1. Elaborate ‘Hedging and Speculation are important functions of derivatives’. Distinguish between exchange traded derivatives and over the counter derivatives**.

**Answer**: **Hedging and speculation- Important functions of derivatives**

**Hedging**

Hedging the foreign currency is a risk reducing strategy that helps everyone involved with foreign currencies. The major issue with foreign currency is that exchange rates vary and are volatile. This unstableness can transform into heavy losses if adverse changes occur in exchange rates between the transaction date and the actual date of receipt or payment. Foreign currency hedging targets to eliminate currency risk. The four major hedging techniques are at times referred to as contractual hedges or market-based hedges. They are future hedges, forward hedges, money market hedges and currency option hedges. These are also generally referred as external strategies dealing with external parties.

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**2. Elaborate on the various channels through which a company can mobilize equity capital from the international market**.

**Answer**: **International Equity Markets**

Equity markets are seen as an avenue by a large number of investors both individual and institutional as an investment source. Securities market includes the distribution of new issues of securities by new or existing companies as well as the purchase and sale of old securities in the stock exchange markets. A company always prefers equity to debt because debt servicing is a compulsory commitment. Equity markets encourage savings among the nationals and increases the efficiency

**3. A country’s Balance of Payment includes two components – Current account, Capital and financial account. Current account measures the value of all goods and services imported and exported during a given financial year. Current Account Deficit (CAD) arises when the value of imported goods and services exceeds the value of exported goods and services. As on June 30, 2020 RBI reported India’s current account deficit has been reduced to 0.9% of the GDP in 2019-20 as compared to 2.1% in FY 2018-19 due to curtailed imports.**

**a. Differentiate between Current account and Capital account.**

**b. What measures can be taken to reduce the disequilibrium in the balance of payments’ position?**

**Answer**: a) **Difference between current account and capital account**

**Current account**: The current account of the balance of payments refers to the monetary value of all exports and imports of merchandise and invisibles. All international flows associated with transactions in goods and services, investment income, and unilateral transfers are included in this account. It is divided into merchandise trade balance, the service balance and the balance on unilateral transfers. All the entries that are made in these accounts are of current value and they do