**International Finance**

**April 2023 Examination**

**1. ABV company, leading manufacturer of women apparels in India, wants to expand its business overseas. Assume that company has no experience in doing business in international markets and how to raise the funds for the same. You work in an investment bank. Suggest different methods of international trade with pros and cons to the company management. Explain the concept and types of different international financial markets. (Limit the description to maximum one page for international markets (10 Marks)**

**Ans 1.**

**Introduction**

Doing business in your residence country and overseas are different. In our residence country, we are familiar with all the variables impacting our service design, including economic, geographical, and political variables. On the other hand, we are unfamiliar with the same component in a foreign country where we seek to broaden our business. So, a business should study and recognize them to run smooth operations in an international country. And nevertheless, we are still determining if we can run our business overseas because studying something and practically doing it are two different

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**2. A forex trader from Mumbai collects the below information regarding the exchange rate between INR and GBP**

**Bid Price: INR / GBP = 96.10**

**Ask Price: INR / GBP = 96.20**

**You are required to help him with the below questions he has: (a) What is the direct exchange rate of INR-GBP for the trader? (b) What is the indirect exchange rate of INR-GBP for the trader?**

**(c) What is a cross rate? If the bid and ask rate for EUR-USD are available as GBP**

**1.2100-1.3100/USD, what would be the bid-ask rates for INR/USD, using the cross- rate method. (10 Marks)**

**Ans 2.**

**Introduction**

Trading in any investment market is intricate, as evidenced by the fact that many new traders lose money. Success can be achieved with adequate methods, proper education, and experience.

The forex, the currency market, is the world's most significant financial investment market. It continues to expand yearly, with greater than $5-6 trillion in notional value traded regularly. In comparison, there is just $26 billion of routine quantity on the New York stock exchange. The marketplace may be substantial. However, until now, the quantity has come from recognized

**3. XYZ ltd. has imported raw material of Euro 14 million from Germany with the credit of**

**30 days. The finance officer of XYZ ltd. wants to hedge this transaction for foreign exchange risk exposure. The prevailing interest and exchange rates in the markets are: Spot Rate: Euro 80.49/ INR**

**Forward Rate: Euro 80.79/ INR**

**30 day Put Option on INR EURO 0.012/ Euro at 1% premium**

**30-day Call option on INR EURO 0.024/ Euro at 1 % premium**

**EURO interest rate: 7% INR interest rate: 14%**

**Based on the above data, answer the following questions:**

**a. Explain different hedging options available to XYZ ltd? (5 Marks)**

**Ans 3a.**

**Introduction**

In investing, hedging is a practical task that every investor should recognize. In the stock exchange, hedging is a technique of getting profile defense, and protection is usually as crucial as portfolio recognition.

Hedging is generally talked about much more widely than is discussed. Nonetheless, it is not an

**b. What is the hedged cost of XYZ ltd payable using forward market hedge, put option hedge and money market hedge? (5 Marks)**

**Ans 3b.**

**Introduction**

Investors or investors make use of FX forwards to minimize danger to foreign financial investments, explicitly observing that their forward agreements lock in a loss of earnings about existing spot currency exchange rates. This gain or loss equates to improving or dragging on the