**International Banking & Foreign Exchange Management**

**April 2024 Examination**

**Q1. ABC Ltd., an Indian multinational company, is planning to expand its operations in Europe. They are considering raising funds through euro loans to finance their European expansion. Explain the concept of euro markets and euro loans, highlighting the benefits and risks associated with such borrowing for ABC Ltd. (10 Marks)**

**Ans 1.**

**Introduction**

The international financial landscape offers a plethora of opportunities for multinational companies seeking to expand their global footprint. Among these opportunities, euro markets stand out as a pivotal avenue for corporations like ABC Ltd., aiming to bolster their operations in Europe. Euro markets, essentially referring to the deposit and lending markets for currencies outside their home countries, provide a unique platform for entities to raise capital beyond their domestic confines. Euro loans, a product of this market, offer a strategic mechanism for financing international expansion projects. These loans are denominated in euros, allowing companies to directly finance their European ventures without the added

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**Q2. Explain the concept of Repo rate and Reverse Repo rate as part of the monetary policy measures used by central banks to control the money supply and inflation. Additionally, discuss other important monetary policy measures that central banks employ to influence the economy. (10 Marks)**

**Ans 2.**

**Introduction**

Monetary policy is a crucial economic tool used by central banks worldwide to manage a country's money supply and inflation levels, thereby stabilizing its economy. Among the myriad of instruments at their disposal, the Repo rate and Reverse Repo rate stand out as central mechanisms. These rates are pivotal in controlling the liquidity in the banking system, influencing interest rates, and ultimately affecting consumer spending and investment. By adjusting these rates, central banks can either encourage economic growth by making borrowing cheaper or curb inflation by making lending more expensive. This delicate balance

**Q3. ABC Bank operates in the United States and deals with various foreign currencies. The bank wants to calculate the cross rate between two currencies, Euro (EUR) and British Pound (GBP), using the indirect quote method. Given the following exchange rates:**

** EUR/USD = 1.20**

** GBP/USD = 1.35**

**Calculate:**

**a. The cross rate between Euro (EUR) and British Pound (GBP) using the indirect quote method. (5 Marks)**

**Ans 3a.**

**Introduction**

In the realm of international finance, the calculation of cross rates between two currencies is a fundamental operation for banks and financial institutions that deal with multiple currencies. ABC Bank, operating in the United States and engaging in transactions involving Euros (EUR) and British Pounds (GBP), requires an understanding of how to determine the cross rate between these two currencies. The indirect quote method offers a pathway to this

**b. The cross rate between Euro (EUR) and British Pound (GBP) using the direct quote method. (5 Marks)**

**Ans 3b.**

**Introduction:**

In the realm of international finance, determining exchange rates between currencies is crucial for various financial transactions. ABC Bank, operating in the United States, seeks to ascertain the cross rate between the Euro (EUR) and the British Pound (GBP) utilizing the direct quote method. Unlike the indirect quote method, which involves deriving the cross rate through the USD, the direct quote method directly provides the exchange rate between the