

**TILAK MAHARASHTRA VIDYAPEETH, PUNE**  
**MASTER OF BUSINESS ADMINISTRATION (M.B.A.)**  
**EXAMINATION: DECEMBER - 2025**  
**SEMESTER - III**  
**Sub.: International Financial Management (MFM307/MBA24-FM306)**

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**Date : 30/12/2025**
**Total Marks : 60**
**Time: 2.00pm to 4.30pm**


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**Instructions:** 1) All questions are compulsory.  
 2) Figures to the right indicate full marks.

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- Q. 1. Write Short notes on (Any Three) (15)**
1. Globalization and its impact on international financial markets
  2. Balance of Payments and its components
  3. Role of International Monetary Fund (IMF) in stabilizing exchange rates
  4. Managed Floating Exchange Rate System
  5. Sovereign Risk and Country Risk
- Q. 2. Answer in detail (Any One) (10)**
1. Explain how foreign direct investment (FDI) contributes to economic development in emerging economies.
  2. Analyze the causes and consequences of international capital flow volatility.
- Q. 3. Answer in detail (Any One) (10)**
1. Examine the impact of trade wars and protectionist policies on international financial stability.
  2. Discuss the Purchasing Power Parity (PPP) theory and its relevance in determining exchange rates.
- Q. 4. Answer in detail (Any One) (10)**
1. Explain the role of multinational banks in global financial integration.
  2. Describe the mechanisms and objectives of currency intervention by central banks.
- Q. 5. (15)**
- Solaris Electronics Ltd. is a fast-growing Indian manufacturer specializing in smart home appliances such as automated lighting systems, security cameras, and IoT-enabled climate control devices. In an effort to expand its global footprint, the company recently entered the Australian market and successfully secured a major export contract valued at AUD 800,000. The payment for this order is scheduled to be received after nine months, exposing Solaris to significant exchange rate risk during this period.
- At the same time, Solaris's production process depends heavily on imported microchips sourced from suppliers in the United States, with payments denominated in US Dollars. This dual exposure to multiple foreign currencies places the company in a vulnerable position, as fluctuations in both the Australian Dollar (AUD) and the US Dollar (USD) can affect its profitability and cash flow stability.
- Recent currency market trends have further increased financial uncertainty. The Indian Rupee (INR) has shown signs of appreciation against the AUD, which could result in Solaris receiving a lower amount in INR when the AUD payment is converted. Such an appreciation diminishes the value of export earnings, negatively impacting revenue projections. Conversely, if the USD strengthens against the INR, Solaris will face higher production costs, as more rupees will be required to pay for imported microchips, further squeezing profit margins.

This situation is a classic example of transaction exposure and economic exposure faced by multinational companies involved in both importing and exporting activities. The uncertainty complicates budgeting, pricing decisions, and profitability forecasting, making effective risk management essential.

To address these challenges, the finance manager of Solaris Electronics is evaluating several foreign exchange risk management strategies. One proposed solution is the use of cross-currency swaps, which would allow Solaris to exchange cash flows in one currency for another, thereby stabilizing both incoming and outgoing payments. This strategy could help align the currency of expenses with the currency of revenues, reducing mismatch risk.

Another option under consideration is the use of forward rate agreements, which would enable Solaris to lock in specific exchange rates today for future transactions. By doing so, the company could protect itself against adverse movements in both AUD-INR and USD-INR exchange rates, ensuring predictability in cash flows.

Additionally, the finance manager is exploring operational techniques such as leading and lagging of payments. By accelerating or delaying certain payments based on expected currency movements, Solaris could strategically benefit from favorable exchange rate conditions. For example, if the USD is expected to strengthen, Solaris might advance its payments to US suppliers to reduce future costs.

While these strategies offer protection, each comes with cost implications and operational complexities. Cross-currency swaps may involve higher transaction costs and long-term commitments, while forward contracts reduce flexibility. Leading and lagging, though operationally simple, depend heavily on accurate exchange rate forecasts and may impact supplier relationships.

**Questions:**

1. Identify the different types of exchange rate risks faced by Solaris Electronics Ltd.
  2. Explain how cross-currency swaps and forward rate agreements can help manage these risks.
  3. Recommend the most suitable combination of strategies for Solaris and justify your choice.
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