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MASTER OF BUSINESS ADMINISTRATION (M.B.A.)
EXAMINATION: MAY/JUNE-2026
SEMESTER - III

Sub.: International Financial Management (MFM307/MBA24-FM306)

Date : 03/06/2026

Total Marks : 60

Time: 10.00am to 12.30pm

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

- Q. 1. Write Short notes on (Any Three) (15)**
1. Capital Account Convertibility
 2. International Liquidity and Global Reserves
 3. Speculative flows and their impact on currency markets
 4. Fixed vs Flexible Exchange Rate Systems
 5. Currency Devaluation and Revaluation
- Q. 2. Answer in detail (Any One) (10)**
1. Discuss the impact of globalization on currency volatility and trade competitiveness.
 2. Explain the importance of international capital markets in promoting global investment.
- Q. 3. Answer in detail (Any One) (10)**
1. Evaluate how digital currencies and cryptocurrencies are altering international financial systems.
 2. Elaborate the role of forward premiums and discounts in exchange rate forecasting.
- Q. 4. Answer in detail (Any One) (10)**
1. Describe the challenges faced by multinational corporations in managing foreign exchange risk.
 2. Illustrate the objectives and functions of the World Bank in international development.
- Q. 5. (15)**
- Vega Pharmaceuticals is a well-established Indian company specializing in the production and export of herbal medicines and natural health supplements. With a growing reputation for quality and compliance with international health standards, the firm recently secured a significant export order worth ₹120 million from a Japanese distributor. The payment for this order is scheduled to be received after four months, exposing Vega to potential exchange rate risk during this period.
- At the same time, Vega relies on high-quality packaging materials imported from Germany, with payments denominated in Euros. This creates a dual currency exposure, as the company faces uncertainty in both the Japanese Yen (JPY) and the Euro (EUR) relative to the Indian Rupee (INR). Fluctuations in these currencies directly affect Vega's cash inflows from exports and cash outflows for imports, impacting overall profitability and financial planning.
- In recent months, the Japanese Yen has experienced noticeable volatility due to shifts in Japan's monetary policy, including changes in interest rates and quantitative easing measures, alongside unpredictable global market sentiment. Such volatility increases the risk that the Yen could depreciate against the Indian Rupee before the payment is received, reducing the value of Vega's export revenue when converted into INR. Conversely, if the Euro strengthens, the cost of imported packaging materials will rise, putting further pressure on Vega's operating margins.
- Recognizing this risk, Vega's finance team has undertaken a comprehensive review of foreign exchange risk management strategies. The first option under consideration is the use of currency futures, which allow the company to lock in an exchange rate for a fixed

quantity of foreign currency on a future date. This provides certainty and protects against unfavorable currency movements, although it eliminates the opportunity to benefit from favorable changes and may involve margin requirements.

The second strategy involves currency options, including both call and put options. By purchasing a put option on the Japanese Yen, Vega can secure a minimum exchange rate for its receivables, while retaining the flexibility to benefit if the Yen appreciates. Similarly, call options on the Euro can help cap the maximum cost of future payments for imports. Although options provide greater flexibility, they require the payment of a premium, which increases hedging costs.

The third alternative is money market hedging, a technique that involves borrowing and lending in domestic and foreign money markets to lock in the effective exchange rate. For the Yen receivables, Vega could borrow in Yen, convert it into INR at current rates, and invest the proceeds until the actual payment is received. For Euro payables, it could invest INR in Euros today to meet future obligations. While this approach provides certainty, it depends on interest rate differentials and involves more complex financial planning.

Each of these strategies carries its own advantages and limitations. Currency futures offer clarity and simplicity but lack flexibility. Options protect against downside risk while preserving potential gains but at a cost. Money market hedging ensures certainty through financial engineering but involves operational complexity and exposure to interest rate fluctuations.

Questions:

1. What exchange rate risks does Vega Pharmaceuticals face in this transaction?
 2. Explain how currency futures, options, and money market hedging can reduce exposure.
 3. Suggest the most effective hedging approach and explain why.
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