

21

ISLAMIC UNIVERSITY OF TECHNOLOGY (IUT)
ORGANISATION OF ISLAMIC COOPERATION (OIC)

DEPARTMENT OF BUSINESS AND TECHNOLOGY MANGEMENT

Mid-Semester Examination

Summer Semester, A. Y. 2022-2023

Course No. : BTM 4829

Time : 1.5 Hours

Course Title : International Finance

Full Marks : 75

Answer all 3 (three) questions. All questions carry equal marks. Marks of each question and the corresponding CO and PO are written in the right margin within brackets.

- 1. a) Plak Co. of Chicago has several European subsidiaries that remit earnings to it each year. Explain how appreciation of the euro (the currency used in many European countries) would affect Plak's valuation. 10 (CO1) (PO1)
- b) Explain how the existence of imperfect markets has led to the establishment of subsidiaries in foreign markets. 08 (CO1) (PO1)
- c) Describe with example how the product cycle theory relates to the growth of an MNC. 07 (CO1) (PO1)

- 2. a) AB Bank expects that Mexican peso will depreciate against the U.S dollar from its sport rate of \$.43 to \$.42 in 60 days. The following interbank lending and borrowing rate exist: 15 (CO3) (PO3)

Currency	Lending Rate	Borrowing Rate
U.S dollar	7.00%	7.2%
Mexican peso	22.0%	24.0%

AB Bank considers borrowing 10 million Mexican peso in the interbank market and investing the funds in U.S dollars for 60 days. Estimate the profits (or losses) that could be earned from this strategy? Should AB bank pursue this strategy?

- b) Would the BD balance-of-trade deficit be larger or smaller if the TK depreciates against all currencies, versus depreciating against some currencies but appreciating against others? Explain. 10 (CO2) (PO2)
- 3. a) Recently, Wal-Mart established two retail outlets in the city of Shanzen, China, which has a population of 3.7 million. These outlets are massive and contain products purchased locally as well as imports. As Wal-Mart generates earnings beyond what it needs in Shanzen, it may remit those earnings back to the United States. Wal-Mart is likely to build additional outlets in Shanzen or in other Chinese cities in the future. 15 (CO2) (PO2)
 - i. Explain how the Wal-Mart outlets in China would use the spot market in foreign exchange.
 - ii. Explain how Wal-Mart might utilize the international money markets when it is establishing other Wal-Mart stores in Asia.

iii. Explain how Wal-Mart could use the international bond market to finance the establishment of new outlets in foreign markets.

- b) What is the function of the international money markets? Briefly describe the reasons for the development and growth of the European money market. Explain how the international money, credit, and bond markets differ from one another. 10 (CO1) (PO1)