

SVKM'S NMIMS University
School of Distance Learning
Program: PGDFM(III)/PGDFM(III)/ADBFM(III)/PGDBFM(III)
Subject: International Financial Management
Marks: 100
Time-3hrs (3 pm to 6 pm)

Instructions: candidates should read carefully the instructions printed on the question paper and on the cover of the answer book, which is provided for their use.

NB:-

1. Answer to each new question to be started on a fresh page
2. Figure in brackets indicate full marks.

Q1. Explain briefly any **two out** of the following theories:-
(10 Marks)

- a) Mercantilist Theory
- b) Comparative Advantage Theory
- c) Comparative Cost Theory
- d) Absolute advantage theory

Q2 Write short notes on **any three** out of the following:-
(15 Marks)

- a) Transfer Pricing
- b) Pyramiding
- c) BOP
- d) World bank
- e) Current Account Convertibility

Q3. Attempt **any three** out of the following questions:-
(45 Marks)

- a) Define foreign exchange risk exposure and distinguish between accounting and economic exposure
- b) Compare and contrast the lending programmes of EXIM Bank and export Credit Guarantees of ECGC
- c) Explain and illustrate the importance of liquidity in international cash management
- d) Describe the innovations in the international capital markets
- e) "Safety –first strategy is inconsistent with all other strategies of international investment"-Discuss

Q4. Read the following Case study and answer the questions given below:-
(30 marks)

WORLD TRADE ORGANISATION Vs FTAs

International trade regime has been undergoing an unending transformation since World War II. A close look at it reveals an inherent conflict and interaction between economic interests of individual countries, as also the role of political and economic strength with

which they are frequently defended. The process also reveals the role of entrenched vested interests including those of corporate entities. One finds that the driving force of the process of restructuring of international economic order is economic rationality at both national and sub-national levels. It is this force which brings to the fore the conflicting interests, the strategies devised by developed and developing countries (both inter-category and intra-category ones) and their changing groupings and regroupings. Again, it is this driving force which prompts the developing countries to argue for milder binding rules and obligations, and which motivates the developed ones to search for ever-new subjects on which developing countries can be bound. The obvious conflict between free trade preached by developed countries and protectionist stance adopted by them is also explained by this very driving force. A review of the contents and working of the General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) illustrates the above-mentioned conflicts, strategies and outcomes.

Disillusioned with the progress of negotiations under WTO in completing the DOHA round, countries have started entering into more and more of free trade agreements bilaterally and regionally. Regional trade blocks are assuming relevance and importance for countries like India which is negotiating an Indo-ASEAN FTA. India and Thailand had already signed a Free Trade Agreement on 10th October, 2003

As per this agreement, import duties on 84 items were to be reduced to 50% of what they were on 1st March, 2003 by 1st March 2004, to 25% by 1st March 2005 and to zero level by 1st March 2006. {This part of the Agreement was termed “the early harvest scheme”}. The imported items must have 40% or value addition to qualify for FTA privileges. It was expected that this Agreement with Thailand would generate many spin-off benefits. Since Thailand is a member of other trade groupings, free trade with it should become a major force in improving efficiency of our own enterprises. Industry, across the board, would face a rapid reduction in protection and would have to find ways of improving its competitiveness. The linkage effects would necessitate that even those industries must improve efficiency which were not directly covered by the agreement. This, in turn, would necessitate several essential reforms in our own industrial laws, financial system and other institutions, as also removal of unnecessary intervention by the bureaucracy.

Beyond the Basic Agreement. Thailand went beyond what is contained in the basic Agreement and proposed economic cooperation on a broader scale. It proposed a land bridge project for linking the Andaman Sea and the Gulf of Thailand for gas and oil transportation. This project fits into India’s programme of developing oil and gas production in the Andaman Sea for which the government is seeking private and foreign investment. Andaman Islands are nearer to Thai shore than to the Indian mainland.

Answer the following questions in detail:-

- 1. What does the review of GATT and WTO illustrate to the readers?**
- 2. Explain the “early harvest scheme” and spin off benefits under the Indo-Thailand FTA**
- 3. How does India benefit by Thailand’s proposal beyond the basic agreement?**