

2025

## COMMERCE

Paper : DSE-406A

(International Finance)

Full Marks : 40

*The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.*

## Module - I

Answer *any two* questions.

1. Give your comments on the following statements : 2×5
- If foreign currency prices are at equilibrium, at different forex trading centers, opportunities for arbitrageurs exist to earn riskless profits in the spot markets.
  - Indian exporters gain from fluctuations in exchange rate if domestic currency is at a forward premium.
  - Currency options are most flexible risk management tools which can itself give rise to risk.
  - A country having a favourable interest rate differential, but its domestic currency is subjected to a very high rate of forward discount which offsets the interest rate advantage, may gain inflows of foreign funds.
  - Fixed-to-floating currency swaps are more in demand by bankers whereas Floating-to-fixed is preferred by traders.
2. You are interested to pursue your research degree in any of the foreign universities offering Ph.D. program in Financial Risk Management. You have stipend entitlements amounting to ₹ 15,00,000 from the Government of India. Below are your choice list of universities offering their Ph.D. program with details of expected course fees for SAARC nationals. Which university will be your pick for taking admission in a research program? Do you need any educational loan to part-finance your program? If any, quantity of the amount of educational loan. [ show complete workings ] 10

Country	University	Total Cost of PhD program	Spot Rate
Singapore	National University of Singapore	75000 SGD	SGDINR :71.3-72.5
United Kingdom	University of Oxford	50000 GBP	GBPINR : 125.2/8
Australia	University of Melbourne	250000 AUD	AUDINR:62.1/6
United Arab Emirates	Zayed University	70000 AED	AEDINR: 24.75-25.10

Please Turn Over

(3099)

3. Work out a possible arbitrage strategy, if any, so that a forex market participant can earn profit :

[ Make necessary assumptions ]

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Country	Borrowing- Lending Rates	Exchange Rates
New Zealand	2.5% – 3.5% p.a.	Spot NZD: 52.3/8
India	4.5%-5.5%p.a.	6m Forward NZD : 53.1/4

4. Sydney based Australian construction company ANDY contractors has placed an order for procurement of high-grade steel of 3 million MT from a leading Indian steel plant Basumati Steel plant limited on 15th December 2025. The invoice value stood at 3,500,000 USD.

The applicable spot rate :

USDINR : 89.3/8

USDAUD : 1.52/5

Expected date of settlement is 90 days or earlier. You believe that AUD may appreciate by 3-5 per cent whereas the INR may depreciate by 6-8 per cent during this intervening period against USD. What risk management strategies you can suggest to both the Australian and Indian companies to mitigate any risk that they are subjected to? Give strong reasons in favour of your answer.

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### Module - II

Answer *any two* questions.

5. (a) Briefly explain the significance Arm's Length Price (ALP).
- (b) A Ltd., a Japanese company has a subsidiary, B Ltd. in India. A Ltd. sells computer monitors to B Ltd., for resale in India. A Ltd. also sells computer to C Ltd., another computer reseller. It sells 1,00,000 computer monitor to B Ltd. at ₹ 22,000 per unit. The price fixed for C Ltd. is ₹ 20,000 per unit. The warranty in case of sale of monitors by B Ltd. is handled by B Ltd. However, for sale of monitor by C Ltd., A Ltd. is responsible for the warranty for 4 months. Both A Ltd. and B Ltd. offer extended warranty at a standard rate of ₹ 3,000 per annum.
- (i) In this situation which method will be applied for determining arm's length transfer price and why?
- (ii) How the assessment is going to be affected? 5+(2+3)
6. (a) Briefly explain with examples the various types of tax haven countries of the world.
- (b) Discuss the 'Exemption system' for relief from double taxation.
- (c) Write a short note on 'UN Model of Double Taxation Avoidance Agreement'. 5+3+2

7. (a) Mention the major incentives that are offered by a typical 'Offshore Financial Centres (OFCs)' to non-residents.
- (b) On January 01, 2021, the Canadian telecom authority expropriated a network service provider owned by XYZ Ltd., a Swedish operator of foreign telecom facility. In compensation, a perpetuity of \$ 150 million will be paid annually at the end of each year. XYZ Ltd believes, however, that the Canadian Central Bank may block currency repatriations during the calendar year 2023, allowing only 50% of each year's payment to be repatriated (and no repatriation of investment from other 50%). Assuming a cost of capital of 15% and a probability of currency blockage of 40%, what is the current value (on January 01, 2021) of Canada's compensation? 5+5
8. (a) How the International Transfer Pricing can be used in 'Moving fund internationally' and 'Minimizing taxes'?
- (b) Briefly explain the concept of Cannibalization with examples in the context of Capital Budgeting decision for the MNCs.
- (c) Define Expropriation. 5+3+2
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