ASSIGNMENT

Course Code	**:**	**MMPF-005**
Course Title	**:**	**International Financial Management**
Assignment Code	**:**	**MMPF-005/TMA/January/2026**
Coverage	**:**	**All Blocks**

Note: Attempt all the questions and submit to the coordinator of your study centre. Last date of submission for January 2026 session is 30th April, 2026 and for July 2026 session is 31st October, 2026.

1. Explain the evolution of International Monetary System. Describe the present system of Exchange Rate.

2. What do you understand by Parity Conditions in International Finance? Explain Purchasing Power Parity (PPP) and Interest Rate Parity (IRP), describe their various forms. Discuss the applications of (PPP) and (IRP) and reasons for deviation.

3. What are 'Currency Derivatives'? Describe the various types of currency derivatives. Explain how currency derivatives can be used to hedge outstanding forex position.

4. What are the various types of Export Credit? Describe the various products and services offered by Export Credit Guarantee Corporation ((ECGC) to exporters.

5. What is 'International Capital Budgeting'? What is its significance? Discuss the key features of International Capital Budgeting.

1. Explain the evolution of International Monetary System. Describe the present system of Exchange Rate.

Answer

The international monetary system means the set of rules, institutions and arrangements through which countries make international payments, determine exchange rates and hold reserve assets. It has changed several times because world trade, capital movements and national economic priorities have changed. Each major stage tried to balance two needs: stability in exchange rates and freedom for countries to manage their own economies.

Gold standard and the inter-war period

Before the First World War, the classical gold standard was the main international monetary arrangement. Each participating country defined its currency in terms of a fixed quantity of gold and maintained convertibility of currency into gold. Since every currency had a fixed gold value, exchange rates between currencies were also fixed within narrow limits known as the gold points. A country with a balance-of-payments deficit lost gold, which reduced its money supply and prices. A surplus country gained gold, which tended to expand money and prices. This price-specie-flow mechanism was expected to restore external balance automatically.

The system gave a high degree of exchange-rate stability and encouraged international trade and investment. However, it required countries to give priority to gold convertibility even when domestic employment or growth suffered. The First World War disrupted convertibility, caused large fiscal deficits and inflation, and ended the smooth working of the classical gold standard. Attempts were made in the 1920s to restore a gold-based system, including the gold exchange standard, under which some countries held reserve currencies as well as gold. The arrangement remained weak because countries returned at inappropriate parities, gold was unevenly distributed, and economic cooperation was limited.

The Great Depression made the problem much worse. Countries abandoned gold, devalued currencies, imposed exchange controls and in some cases followed competitive depreciation. International trade and payments became fragmented into currency blocs. The experience showed that a system based only on rigid exchange-rate commitments could become difficult to maintain when countries faced deep domestic recession and banking problems.