**TUTOR MARKED ASSIGNMENT**

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| **COURSE CODE** | **:** | **IBO-06** |
| **COURSE TITLE** | **:** | **International Business Finance** |
| **ASSIGNMENT CODE** | **:** | **IBO-06/TMA/2026-2027** |
| **COVERAGE** | **:** | **ALL BLOCKS** |

**Maximum Marks: 100**

**Attempt all the questions:**

**1.** a) Explain the structure and functioning of the foreign exchange market. Discuss the role played by commercial banks, central banks, brokers, and multinational corporations. **(10+10)**

b) Discuss multinational working capital management. Explain the challenges associated with managing cash, receivables, and inventory across international operations.

**2.** a) What is foreign exchange exposure? Discuss transaction, translation, and economic exposure along with suitable business examples. **(10+10)**

b) Discuss the strategic importance of risk management in international business finance.

**3.** a) Discuss the theories of exchange rate determination. Compare Purchasing Power Parity Theory and Interest Rate Parity Theory in explaining currency movements. **(10+10)**

b) Explain how political and economic uncertainties affect international investment decisions.

**4.** **Distinguish between the following:** **(4x5)**

**a)** Foreign Exchange Quotations and Cross Exchange Rates.
**b)** Spot Exchange Market and Forward Exchange Market
**c)** Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)
**d)** Eurocurrency Market and Eurobond Market

**5.** **Write Short Notes on the following:** **(4x5)**

**a)** Importance of export financing in international trade
**b)** Currency Options as a hedging instrument
**c)** Country Risk Assessment in multinational investment decisions
**d)** Role of IMF in maintaining international monetary stability

## 1. a) Explain the structure and functioning of the foreign exchange market. Discuss the role played by commercial banks, central banks, brokers, and multinational corporations. (10+10)

### Answer

The foreign exchange market is the market in which one national currency is exchanged for another. It is essential for international trade, investment, tourism, borrowing and lending because payments arising in one currency often have to be settled in another. Unlike a stock exchange, the foreign exchange market is not located in one building. It is mainly a decentralized, over-the-counter network of banks, financial institutions, dealers, brokers, electronic trading platforms and large business firms connected across financial centres such as London, New York, Singapore, Tokyo and Mumbai.

### Structure of the foreign exchange market

The core of the market is the interbank market. Large commercial and investment banks quote buying and selling rates to one another and deal in very large amounts. Around this core is the customer market, where exporters, importers, investors, borrowers and multinational companies approach banks for foreign currency. Brokers and electronic dealing systems connect market participants and help them discover competitive prices without always revealing the identity of the parties at the initial stage. Central banks also participate when they manage reserves, influence domestic liquidity or intervene in the currency market.

Transactions may be classified by their settlement period and purpose. A spot transaction involves exchange at the current market rate with settlement normally taking place within a short standard period. A forward transaction fixes today the exchange rate for a future date and is widely used for hedging. Foreign exchange swaps combine two opposite currency transactions for different value dates and are useful for liquidity and funding management. Options and futures are also used to manage currency risk. Exchange rates are continuously influenced by demand and supply, interest rates, inflation expectations, trade flows, capital movements, political news and market expectations.

### How the market functions

A bank normally quotes two rates: the bid rate at which it will buy a currency and the ask or offer rate at which it will sell that currency. The difference is the