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| **SESSION** | **FEB- MARCH 2025** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **4** |
| **COURSE CODE & NAME** | **DFIN401 INTERNATIONAL FINANCIAL MANAGEMENT** |
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**Assignment Set – 1**

**Q1. Explain various derivative instruments traded in the Foreign Exchange market.**

**Ans 1.**

**Forex Derivatives**

The foreign exchange (forex) market is one of the largest and most liquid financial markets globally. It facilitates the trading of currencies between participants across borders. Derivative instruments in the forex market are primarily used for hedging, speculation, and arbitrage purposes. These instruments derive their value from underlying currency exchange rates and

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**Q2. Describe the components of the Balance of Payments. 10**

**Ans 2.**

**Balance of Payments (BoP)**

The Balance of Payments (BoP) is a comprehensive record of all economic transactions between the residents of a country and the rest of the world over a specific period, usually a year or quarter. It helps assess a country’s economic strength, currency stability, and international financial position. The BoP is divided into distinct components that reflect trade, investment, and financial flows.

**Current Account**

The current account records the flow of goods, services, income, and current transfers. It is

**Q3. Write Short notes on:**

**i) Interest rate parity**

**ii) Forward-to-forward contracts 5+5**

**Ans 3.**

**(i). Interest Rate Parity (IRP)**

Interest Rate Parity (IRP) is a fundamental principle in international finance that explains the relationship between interest rates and exchange rates. It forms the theoretical foundation for the pricing of forward exchange rates and ensures that there are no arbitrage opportunities in the foreign exchange markets.

**Concept of IRP**

The Interest Rate Parity theory states that the difference in interest rates between two countries

**Assignment Set – 2**

**Q4. “Factoring is an efficient financing technique.” Comment. 10**

**Ans 4.**

**Factoring**

Factoring is a short-term financing technique in which a business sells its accounts receivable (invoices) to a third party (called a factor) at a discount in exchange for immediate cash. It is an important tool for improving liquidity and managing working capital, especially for small and medium enterprises (SMEs).

**How Factoring Works**

When a business issues an invoice to a customer with a payment term of 30–90 days, it may

**Q5. What aggressive and defensive approaches can a firm use in hedging? 10**

**Ans 5.**

**Hedging Approaches**

Hedging is a financial strategy used by firms to minimize or eliminate the risk of adverse price or currency movements. In international financial management, hedging is vital for managing exposure to foreign exchange fluctuations. Firms typically adopt either aggressive or defensive hedging strategies depending on their risk appetite, financial goals, and market conditions.

**Aggressive Hedging Approach**

An aggressive hedging approach involves selectively or partially hedging foreign exchange

**Q6. Define cross-border acquisition and discuss its effects. 2+8**

**Ans 6.**

**Definition of Cross-Border Acquisition**

A cross-border acquisition refers to a business transaction in which a company from one country acquires a controlling interest in a company located in another country. It is a strategic tool used by firms to expand their global footprint, access new markets, gain technological know-how, or achieve economies of scale.

In this process, the acquiring firm takes over the assets, operations, and management of the