

**UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF ARTS**

Fourth Year Examination in Arts - 2022

First Semester Final Examination

ECN 4172 – International Finance

Time Allowed: Two Hours (02)

Answer any Four (04) Questions Only

Question (1).

- (a) Outline and discuss different types of international financial flows and explain how they are interconnected. (12.5 Marks)
- (b) Examine the structure of world financial markets and their inter connections. (12.5 marks)

Question (2)

- (a) What is meant by international forex market? Discuss the importance of forex market in the international financial system (12.5 marks)
- (b) Explain major forex market participants and the instruments used to carryout forex market transactions. (12.5 marks)

Question (3)

- (a) Identify and describe major forex market centers in the world. Examine the relative importance of major currencies traded in these markets (12.5 marks)
- (b) Discuss the recent market trend of major currencies in the forex market and identify reasons for such a trend. (12.5 marks)

Question (4)

- (a) Define Balance of Payments and explain how financial flows are recorded in the accounts of the balance of payments. (12.5 marks)
- (b) What is meant by a deficit or surplus in the balance of payments? How could an imbalance in the balance of payment arise despite it adopts the double entry bookkeeping system of accounting? What are the impacts of a balance of payment deficit? (12.5 marks)

Question (5)

- (a) What is meant by foreign exchange risk? Identify various types of risks involved in the forex market and examine the remedial measures to manage such forex risks. (12.5 Marks)
- (b) Differentiate between currency forward future contracts and currency option contracts using appropriate examples? (12.5 Marks)

Question (6)

- (a) Explain the salient features of the Gold Standard exchange rate regime. Analyze the merits and demerits of this system. (12.5 Marks)
- (b) To what extent the Bretton Woods exchange rate regime had been able to address the weaknesses of the Gold Standards? Examine the reasons for the collapse of the Bretton Woods exchange rate system in the early 1970s? (12.5 Marks)

Question (7)

- (a) Compare and contrast any two of the approaches to balance of payment problems.
- (i) Elasticity approach
 - (ii) Multiplier approach
 - (iii) Absorption approach
 - (iv) Monetary approach
- (12.5 Marks)
- (b) In your opinion, which of the two approaches you have compared above is more suitable in addressing the balance of payments problems in a developing country like Sri Lanka? Explain why? (12.5 Marks)

Question (8)

Write brief explanatory notes on any TWO of the following

- (a) Hedgers, arbitrageurs, and speculators in the forward exchange market.
- (b). Merits and demerits of fixed, managed floating and free-floating exchange rate systems.
- (c) Advantages and disadvantages of Currency boards system.
- (d) International financial crisis and their impacts on exchange rates.

(12.5 marks for each part)

-----End of Question Paper-----