

44 Lecture - MGT201

Important Subjective

1. What is the difference between a fixed and a floating exchange rate?

Answer: A fixed exchange rate is when a country's currency is tied to the value of another currency, a basket of currencies, or to gold. A floating exchange rate, on the other hand, is when a currency's value is determined by the market forces of supply and demand.

2. What is the importance of foreign direct investment (FDI) in international finance?

Answer: Foreign direct investment (FDI) plays a significant role in international finance as it allows multinational corporations to invest directly in a foreign country, enabling them to gain access to new markets, resources, and technology. FDI also stimulates economic growth and creates employment opportunities in the host country.

3. How does economic exposure differ from transaction exposure?

Answer: Economic exposure is the risk that a company's cash flows and profitability will be affected by changes in exchange rates, while transaction exposure is the risk that arises from the actual transactions that the company engages in with foreign entities.

4. What are the benefits and drawbacks of using derivatives to manage foreign exchange risk?

Answer: The benefits of using derivatives to manage foreign exchange risk include increased certainty in cash flows and reduced exposure to exchange rate fluctuations. However, the drawbacks can include the potential for losses if the exchange rate moves in an unexpected direction and the possibility of counterparty risk.

5. How does political risk affect multinational corporations operating in foreign countries?

Answer: Political risk refers to the potential impact of political and legal factors on a company's operations and profitability. Political risk can manifest in various forms, such as expropriation, nationalization, civil unrest, and terrorism, and can have a significant impact on multinational corporations operating in foreign countries.

6. What is the role of international financial institutions in facilitating international finance?

Answer: International financial institutions, such as the International Monetary Fund (IMF) and the World Bank, play a critical role in facilitating international finance by providing financial assistance, technical support, and policy advice to member countries. These institutions also help to promote global economic growth and stability.

7. What is the significance of the foreign exchange market in international finance?

Answer: The foreign exchange market is a crucial component of international finance, as it provides a platform for the exchange of currencies and facilitates international trade and investment. It is also a key factor in determining exchange rates and managing foreign exchange risk.

8. How do cultural differences affect multinational corporations operating in foreign countries?

Answer: Cultural differences can have a significant impact on the success of multinational corporations operating in foreign countries. These differences can affect business practices, communication styles, and management approaches, and can lead to misunderstandings and conflicts if not managed effectively.

9. What are the advantages and disadvantages of financing international operations through debt versus equity?

Answer: The advantages of financing international operations through debt include lower costs and greater flexibility, while the advantages of financing through equity include reduced financial risk and increased control. The disadvantages of debt financing include the potential for default and higher interest rates, while the disadvantages of equity financing include dilution of ownership and lower returns.

10. What are the key factors that multinational corporations need to consider when making foreign direct investment decisions?

Answer: Multinational corporations need to consider a range of factors when making foreign direct investment decisions, including political and economic stability, legal and regulatory frameworks, market potential, labor costs, and infrastructure. They also need to consider the potential risks associated with investing in a foreign country and the availability of financing options.