**International Finance**

**Jun 2025 Examination**

**Q1. How did the Bretton Woods System shape the evolution of international financial frameworks, particularly in defining exchange rate mechanisms? Analyze its lasting impact on global monetary policies and financial stability, considering its role in influencing modern exchange rate regimes. (10 Marks)**

**Ans 1.**

**Introduction**

The Bretton Woods System, established in July 1944 during a conference held in Bretton Woods, New Hampshire, marked a turning point in the development of the international financial architecture. Designed in the aftermath of the Great Depression and World War II, it aimed to create a stable monetary environment that would promote global economic growth, prevent competitive devaluations, and ensure monetary cooperation among nations. The system introduced a framework of fixed exchange rates, anchored by the US dollar convertible to gold, thereby becoming the cornerstone of post-war economic stability. Institutions like the International Monetary Fund (IMF) and the World Bank emerged as key pillars of global

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**Q2. How does the discipline of International Finance serve as a nexus point that integrates critical elements of macroeconomic theory and global financial oversight? Consider the interconnected framework through which exchange rates, capital flows, and monetary policies transcend national boundaries to form a cohesive system. In what ways does this field provide both theoretical foundations and practical applications that enable practitioners to navigate the complexities of an increasingly interdependent world economy? (10 Marks)**

**Ans 2.**

**Introduction**

International Finance is a vital branch of economics that bridges macroeconomic theory and global financial systems. In an increasingly globalized economy, financial decisions in one country can ripple across continents, influencing trade balances, capital markets, and exchange rates worldwide. This discipline analyzes how countries interact financially through foreign investments, trade, monetary policies, and international institutions. It encompasses both theoretical constructs—such as balance of payments and interest rate parity—and practical tools like currency hedging, capital budgeting for multinational corporations, and sovereign risk assessment. International Finance thus becomes a nexus where national economies converge into a global framework, facilitating the smooth movement of capital and resources.

**Q3A. How does the concept of international competitive advantage shape modern financial systems and cross-border capital flows? In what ways does it influence global investment patterns and the specialization of financial services between the USA, Germany, and the UK as per International Comparitive Advantage Theory ? Explain the paradigm (5 Marks)**

**Ans 3a.**

**Introduction**

The theory of international comparative advantage explains how countries specialize in producing goods and services in which they have relative efficiency. In the modern financial context, this principle extends beyond goods to services, including finance, banking, and investment. By leveraging their strengths, countries attract capital flows, shape global investment trends, and build financial ecosystems that reflect their unique competencies. The

**Q3B. In the realm of international banking, financial institutions often rely on specific account structures to facilitate cross-border transactions. How does the operational significance of a Vostro account ensure seamless foreign exchange settlements and regulatory compliance? What key role does it play in managing correspondent banking relationships? (5 Marks)**

**Ans 3b.**

**Introduction**

In international banking, cross-border transactions require well-structured account systems for efficiency, transparency, and compliance. A Vostro account is one such account maintained by a domestic bank on behalf of a foreign bank, usually in the local currency. These accounts are central to correspondent banking, which facilitates global trade and remittance services. The operational utility of a Vostro account lies in its ability to enable timely settlements, ensure