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# RC-4423-24

## M.B.A. (Sem. IV) (F.T.) & (EVE.) Examination

**April / May – 2010**

## Foreign Exchange Management

Time : **3** Hours] [Total Marks : **100**

**RC-4423**

**Instructions :** (1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
**Fillup strictly the details of ☛ signs on your answer book.**

Name of the Examination :
☛ **M.B.A. (Sem. 4) (F.T.) & (EVE)**

Name of the Subject :
☛ **Foreign Exchange Management**

☛ Subject Code No. : **4 4 2 3** ☛ Section No. (1, 2,.....) : **1**

Seat No. :

Student's Signature

(2) Write **both** sections in **separate** answer books.
(3) Both sections carry **equal** marks.
(4) Question **1** and **6** are **compulsory** of section I and II respectively.
(5) Attempt any **two** from 2,3,4 and 5 of section I and from 7,8,9 and 10 of section-II.

**1** (a) The premium on March 30 on a June 30 Yen put option is 0.0615 cents per Yen at a strike price of \$ 0.0088 the forward rate of June 30 is \$ 0.00897 and quarterly interest rate is 2%. If Call-put parity holds, what is the current price of a June 30 Yen call option with n exercise price of \$ 0.0088. **8**

(b) Explain Call-Put Option Interest Rate Parity. **10**

**2** A US distributor purchase goods from France for French Franc (FF) 50 million. Payment in FF is due in three months. Market date is as follows : **16**

**Exchange rate \$/FF :**
Spot : \$0.118850
3-Month forward : \$0.118140

**Interest rate (p.a) :**
United States : 9%
France : 10.25%

(i) What is the premium or discount on the forward FF? Is there an incentive for interest rate arbitrage? Explain how arbitrage will eventually eliminate profit opportunities?

(ii) Assume that interest rate in France is 11.4% instead of 10.25%. Show who the US firm can hedge this transaction :

(a) Money Market

(b) Forward Market (show Calculation ignoring the transaction cost).

(iii) If actual 90 day spot rate is $0.160735, how did the US firm fare in question (ii) compared to unhedged position.

3 (a) On Monday morning an investor takes a long position in pound futures contract that matures on Wednesday afternoon. The agreed upon price is $1.68 for £62,500. At the close of trading on Monday the future price has risen to $1.69. At Tuesday close, the price rises further to $1.70. At Wednesday close the price falls to $1.685 and the contract matures. The investor takes the delivery at the prevailing price of $1.696. Detail the delay settlement process and what would be investor's profit (loss)? 8

(b) ABC would like to execute money market hedge to cover ¥350,000,000 shipment from Japan of computer system it will receive in six months. The current exchange rate for Yen is ¥116/$. 8

(i) How would ABC structure the hedge? What would it do to hedge the Yen to pay in six months? The annual Yen interest is 4%.

(ii) The Yen may rise as much as ¥132/$ or fall to ¥107/$. What will the total dollar cash flow be in six months in either case?

4 'Countries with inflation rate need to keep devaluing their currency to maintain competitiveness. But the countries that try to maintain their competitiveness by devaluing their currency only end up with higher inflation'. - Discuss. 16

5 Write short notes : (any **two**) 16

(a) Multinational Financial Management

(b) Equilibrium Approach to Exchange Rate

(c) Balance of Payment - Domestic Savings and Investment

(d) Translation Exposure

**Instructions :** (1)

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**Fillup strictly the details of ☛ signs on your answer book.**

Name of the Examination :

☛ **M.B.A. (Sem. 4) (F.T.) & (EVE)**

Name of the Subject :

☛ **Foreign Exchange Management**

☛ Subject Code No. : **4 4 2 4** ☛ Section No. (1, 2,.....) : **2**

Seat No. :

Student's Signature

(2) Write **both** sections in **separate** answer books.

(3) Both sections carry **equal** marks.

(4) Question **1** and **6** are **compulsory** of section I and II respectively.

(5) Attempt any **two** from 2,3,4 and 5 of section I and from 7,8,9 and 10 of section-II.

**6** (a) The exchange rate is Rs. 45.50/$ in the spot market and is expected to move Rs. 46.75/$ in 12 months. The interest rate in India is 5% and US is 2% p.a. **10**

(i) What should be the 1 year forward exchange rate based on interest rate parity ?

(ii) How will you take advantage of this information?

(b) 'The maintenance of money's value is said to depend on the central bank authorities'. - Comment. 8

**7** 'The empirical evidence shows that there is no consistent relationship between the spot rate and the nominal rate differentials'. - Explain. **16**

8 (a) On April 15, 2010 the DM was quoted $0.3876/DM, and the French Franc was quoted $0.2133/FF, in New York. On the same date Paris was quoting FF1.7500/DM, and FF4.6875/$. What are the incentives for arbitrage? 8

(b) The inflation rate in India is 7% and in Switzerland is 2%. The Swiss Franc is quoted at Rs. 24/- today. If the real appreciation of the SF against rupee is remains same at 5% for three years, compute the exchange rate at the end of one, two and three years. 8

9 (a) Hopkins Co. transported goods to Switzerland and will receive SF 2 million SF in 3 months. It believes the 3 month forward rate will be accurate of the future spot rate. The 3 month forward rate of SF is \$0.68. A put option is available to with an exercise price of \$0.69 and a premium of \$0.03. Would Hopkins prefers a put option hedge to no hedge? - Explain. **8**

(b) The following rates are quoted in United States for Euro : **8**

| | |
|---|---|
| Spot rate : | \$0.4481/74 |
| One month | 64/58 |
| Three Months | 140/148 |
| Six Months | 193/178 |

(i) What are the outright rates of Dollar per Euro?

(ii) How much you have to pay in Dollar to buy three months Euro?

(iii) What is the price of one month Dollar if you pay in Euro ?

What is the per annum premium or discount of Euro against the Dollar in 1, 3 and 6 month forward rate (assume you are selling Euro)?

10 Write short notes : (any **two**) **16**

(a) Purchase Power Parity

(b) Unbiased forward rate

(c) Measuring Economic Exposure

(d) Gold Standard.