



SB-4092
M.B.A. (FT) & (EVE.) (Sem. IV) (ATKT)
Examination
March/April – 2011
Foreign Exchange Management
(Old Course)

Time : 3 Hours]

[Total Marks : 100

Instructions :

(1)

<p>नीचे दर्शाविएल निशानीवाणी विगतो उत्तरवडी पर अवश्य लपनी. Fillup strictly the details of signs on your answer book.</p> <p>Name of the Examination : M.B.A. (FT) & (EVE.) (Sem. 4) (ATKT)</p> <p>Name of the Subject : Foreign Exchange Management (Old)</p> <p>Subject Code No. : 4 0 9 2 Section No. (1, 2,.....) : 1&2</p>	<p>Seat No. : <input type="text"/><input type="text"/><input type="text"/><input type="text"/><input type="text"/><input type="text"/></p> <div style="border: 1px solid black; border-radius: 15px; padding: 10px; text-align: center; margin-top: 10px;">Student's Signature</div>
--	--

- (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.

SECTION - I

- 1 (a) Interest rate of Pound is 15% and on Dollar 10%. The pound spot rate is \$1.55 and forward rate is \$1.48. 10
- (i) Are exchange rates in equilibrium ?
 - (ii) If not, how will you take advantage ?
 - (iii) What will be the impact on forward exchange rate ?
- (b) What is meant by forward rate being an 'Accurate predictor of future spot rate ? Is it different from 'unbiased' predictor ? Explain. 8

- 2 (a) Pound is quoted at \$1.8020/26 and Euro is quoted at \$0.5120/57. What is the direct quote in Europe ? **6**
- (b) The following rates are quoted in United States for Euro. **10**
- | | |
|--------------|-------------|
| Spot rate : | \$0.4750/43 |
| One month | 43/37 |
| Three months | 159/167 |
| Six months | 182/177 |
- (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 ?
- (iv) 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) ?
- 3 Among the three exposures translation, Transaction, Economic which is the easiest and which is difficult ? Give your reasoning. **16**
- 4 (a) On October 24, 2010 the DM was quoted at \$ 0.5360/DM and FF was quoted at \$ 0.2328/FF in Chicago. If Paris is Quoting FF 2.3000/DM and FF 4.2955/\$, what are the incentives for arbitrage ? **10**
- (b) If the Pound is \$ 0.58 in the spot market and the one year forward rate is \$ 0.60 the annualized rate is 2% in Europe. What is the annualized interest rate in US ? **6**
- 5 Write short notes : (any two) **16**
- (a) Call and Put Options
- (b) Interest Rate Parity
- (c) Central Bank Interventions
- (d) Gold Standard in International Monetary System.

SECTION - II

- 6** (a) The spot rate for French Franc is \$0.1350 and three months forward rate is \$0.1360. Your company is prepared to speculate that French Franc will move to \$0.1500 by the end of three months. **10**
- (i) Are the quotations given direct or indirect ?
 - (ii) How would the speculation be undertaken using the spot market only ?
 - (iii) How would the speculation be arranged using forward rate ?
 - (iv) If your company were prepared to put \$1 million at risk on the deal, what would the profit turn out to be if expectations were met ? Ignore all interest rate implications.
 - (v) How would your answer to above differ when you take in account the interest rate implications ?
- (b) Explain Purchase Power Parity. **8**
- 7** (a) The spot quote of DM is \$0.5302-10 and the spot quote on FF is \$0.3180-90. **8**
- (i) What is the direct quote for FF in Frankfurt ?
 - (ii) Compute the percentage bid-ask spreads on DM and FF.
- (b) An importer has a payment of £ 7 million in 3 months. **8**
- (i) If the 3 month forward rate is \$1.9200, what is the hedged cost of making the payment ?
 - (ii) If the spot rate expected in 3 months is \$1.9050, what is the expected cost of payment ?
 - (iii) What factors will affect hedging decision ?
- 8** 'A system of floating Exchange Rate fails when the government ignores the verdict of exchange market on their policies and resort to direct control over trade and capital flows'. Comment. **16**

- 9** Write short notes : (any two) **16**
- (a) Currency Futures
 - (b) Money Market Hedge
 - (c) International Fisher Effect
 - (d) Balance of Payment
- 10** (a) The inflation rate in India is 9% and in Switzerland is 4%. The Swiss Franc is quoted at Rs. 44/- today. If the real appreciation of the SF against rupee remains same at 7% for three years, compute the exchange rate at the end of one, two and three years. **8**
- (b) Hopkins Co. transported goods to Switzerland and will receive SF 4 billion SF in 3 months. It believes that the 3 month forward rate will be accurate of the future spot rate. The 3 month forward rate of SF is \$0.48. A put option is available to with an exercise price of \$0.49 and a premium of \$0.03. Would Hopkins prefer a put option hedge to no hedge ? Explain. **8**
-