PG – 666

4.

IV Semester M.Com. Degree Examination, November 2023
(CBCS)
(2021-22)
COMMERCE (Finance and Banking)
FB : 4.3 : Forex Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** questions out of ten. **Each** question carries **two** marks : **(7×2=14)**

1. a) Expand SWIFT.

   b) What do you mean by hedging ?

   c) Give the meaning of cross rates.

   d) How arbitrage is different from speculation ?

   e) What is plain vanilla swap ?

   f) What do you mean by exposure ?

   g) List the participants of forex markets.

   h) What do you mean by balance of payment ?

   i) What is direct quote ?

   j) What are floating rate ?

St. CLARET COLLEGE PG LIBRARY

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks : **(4×5=20)**

2. Discuss the factors influencing the exchange rate.

3. Explain the types of exposures in forex market.

4. What is options ? Explain its types.

5. A foreign exchange trader gives the following quotes for the Euro Spot, one month, three months and six months to a US based treasurer.

   \$0.02368/70 4/5 8/7 14/12. Calculate the outright quotes for one, three and six months forward.

P.T.O.

6. How are exchange rates determined under the following three systems : Free Float, Managed Float and Currency Pegging. Give illustration.

7. X Ltd., wishes to borrow US$ at a fixed rate of interest. Y Ltd. wishes to borrow Japanese Yen at a fixed rate of interest. The amounts required by both the companies are roughly the same at current exchange rate. The companies have been quoted the following interest rate :

	Dollar	Yen
X Ltd.	4.00%	8.60%
Y Ltd.	5.50%	9.00%

Design a swap that will net a bank, acting as intermediately, 50 basis points per annum. Make the swap equally attractive to the two companies and ensure that all foreign exchange risk is assumed by the bank.

SECTION – C

Answer **any two** questions out of four. **Each** question carries **twelve** marks : **(2×12=24)**

8. Discuss the Purchasing Power Parity (PPP) theory and the rationale behind it.

9. Write a short note on :

   a) Gold Standard

   b) Basket of Currencies

   c) Asset Market Model.

10. "Determination of Exchange Rates remains a mystery". In light of this statement explain the factors that determine the FOREX.

11. Given the following data :

    Spot rate : Rs. 42.0010 = $1

    6 months forward rate : Rs. 42.8020 = $1

    Annualised interest rate : Rupee = 12%

    Annualised interest rate : Dollar = 8%

    Calculate the arbitrage possibilities assuming the possibility for an investment of $ 1000 by taking a loan at 8% in the US.

SECTION – D

Compulsory skill based question on subject : **(1×12=12)**

12. Chemex, a U.S. maker of speciality chemicals, exports 40 percent of its $600 million in annual sales : 5 percent goes to Canada and 7 percent each to Japan, Britain, Germany, France, and Italy. It incurs all its costs in U.S. dollars, while most of its export sales are priced in the local currency.

    a) How is Chemex affected by exchange rate changes ?

    b) Distinguish between Chemex's transaction exposure and its operating exposure.

    c) How can Chemex protect itself against transaction exposure ?

    d) What financial, marketing, and production techniques can Chemex use to protect itself against operating exposure ?
