PG – 1323

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IV Semester M.Com. Degree Examination, October/November 2024
(CBCS) (2021-22)
COMMERCE (Finance and Banking)
FB 4.3 : Forex Management

Time : 3 Hours Max. Marks : 70

SECTION – A

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

a) Define Swap.

b) What is Arbitrage ?

c) Define European Options and American Options.

d) What is Mark to Market ?

e) Consider the following bid ask prices of Rs. 60.00 – 60.75/US$. Find the Bid Ask spread.

f) What is Vostro Account ?

g) Define Cross Rate.

h) What is meant by Basket of Currencies ?

i) What is FOREX ?

j) What is Leading and Lagging ?

SECTION – B

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

2. Explain the types of Exposures in Forex Market.

3. Define Foreign Exchange Quotes. Explain different types of foreign exchange quotes.

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4. Given : US $ 1 = ¥107.31

£ 1= US $ 1.26

A $ 1 = US $ 0.70

i) Calculate the cross rate for Pound in Yen terms.

ii) Calculate the cross rate for Australian Dollar in Yen terms.

iii) Calculate the cross rate for Pounds in Australian Dollar terms.

5. Explain the differences between forward and futures contract.

6. Explain SWIFT usage in forex transaction.

7. Followings are the spot exchange rates quoted at three different forex markets.

USD/INR 49.00 in Mumbai

GBP/INR 78.52 in London

GBP/USD 1.6371 in New York

The arbitrageur has USD 1,00,00,000. Assuming that there are no transaction costs, explain whether there is any arbitrage gain possible from the quoted spot exchange rates.

SECTION – C

Answer **any two** questions out of four. **Each** question carries **twelve** marks.

(2×12=24)

8. The following quotes appear in the foreign exchange market.

Currencies	Spot Rate	2 months Forward Rate
Rs./US $	Rs. 52/52.35	Rs. 54/54.80

You are required to calculate :

1) How many UD dollar should a firm sell to get Rs. 20 lakhs after 2 months ?

2) How many rupees is the firm required to pay obtain US% 2,50,000 in the spot market ?

3) Assume the firm has $ 75,000 in current account earning no interest. ROI on rupee investment is 12% p. a. Should the firm encase the US $ now or 2 months later ?

9. Explain the Internal and External hedging strategies.

10. HDIL Ltd. is a listed real estate development company in India, with significant operations in the Mumbai Metropolitan Region has an export exposure of HKD 12,00,000 payable August 31, 2023. Hong Kong Dollar (HKD) is not directly quoted against Indian Rupee.

    The current spot rates are :

    INR/GBP Rs. 82.05

    HKD/GBP HKD 9.93

    It is estimated that Hong Kong Dollar will depreciate to 10.89 level and Indian Rupee to depreciate against GBP to Rs. 84.83.

    Forward rates for August 2023 are

    INR/GBP Rs. 86.33

    HKD/GBP HKD 10.77

    Required :

    i) Calculate the expected loss, if the hedging is not done. How the position will change, if the firm takes forward cover ?

    ii) If the spot rates on August 31, 2023 are :

       INR/GBP = Rs. 82.09

       HKD/GBP = HKD 9.99

       Is the decision to take forward cover justified ?

11. Explain the purchasing power parity theory with example.

SECTION – D

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

12. Sun Ltd. is planning to import equipment from Japan at a cost of 3,400 lakh Yen. The company may avail loans at 18 percent per annum with quarterly rests with which it can import the equipment. The company has also an offer from Osaka branch of an India based bank extending credit of 180 days at 2 percent per annum against opening of an irrecoverable letter of credit.

    Additional information :

    Present exchange rate INR 100 = 340 Yen

    180 day's forward rate INR 100 = 345 Yen

    Commission charges for letter of credit at 2 percent per 12 months. Advice the company whether the offer from the foreign branch should be accepted or not. Justify.