



PG – 607

**III Semester M.Com. (I.B.)/M.I.B. Examination, December 2016
(CBCS)
Paper – 3.1 : FOREX MANAGEMENT**

Time : 3 Hours

Max. Marks : 70

SECTION – A

Answer **any seven** questions out of ten. **Each** question carries **two** marks : (7x2=14)

1. a) What do you mean by International Fisher Effect ?
- b) What is a Mark-To-Market (MTM) ?
- c) What is meant by Currency Devaluation ?
- d) What do you mean by Exchange traded derivatives ?
- e) Distinguish between 'Caps and Collars'.
- f) What is the meaning of forward rate agreement ?
- g) Write four advantages of netting.
- h) Consider the following bid-ask prices : Rs 65.00 – 65.75/US \$. Find the Bid-Ask spread.
- i) Find out the forward rate differential if spot rate of US \$ is Rs. 65.00 and one-month forward rate is Rs. 65.80.
- j) A spot rate is DM = \$0.3302-10. Another spot rate is FF = \$0.1180-90. Compute the direct quote of FF in Germany.

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks : (4x5=20)

2. Distinguish between 'Ask price' and 'Bid price' in foreign exchange.
3. Futures contract as hedging tools and help in protecting the risks associated with uncertainties in exchange rates, explain.
4. How do firms manage economic risk due to fluctuations in forex market ?

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5. Following information is made available :

Spot rate for US \$1 Rs. 66.0123

180-day forward rate for US \$1 Rs. 66.8190

Annualised interest rate for 6 months – Rupee 12%

Annualised interest rate for 6 months – US \$ 8%

Explore arbitrage possibility.

6. A customer with whom the PQR Bank had entered into 3 months forward purchase contracts for Swiss Francs 1,00,000 at the rate Rs. 36.25 comes to the bank after two months and requests cancellation of the contract. On this date, the rates are :

| | | |
|-------------------|-------------------|-------|
| Spot | CHF 1 = Rs. 36.30 | 36.35 |
| One month forward | 36.45 | 36.52 |

Determine the amount of profit or loss to the customer due to cancellation of the contract.

7. Following are the details of cash inflows and outflows in foreign currency denominations of DMS Co. an Indian export firm, which have no foreign subsidiaries :

| Currency | Inflow | Outflow | Spot rate | Forward rate |
|--------------------|-------------|-------------|-----------|--------------|
| US \$ | 4,00,00,000 | 2,00,00,000 | 48.01 | 48.82 |
| French Franc (FFr) | 2,00,00,000 | 80,00,000 | 7.45 | 8.12 |
| U. K. (£) | 3,00,00,000 | 2,00,00,000 | 75.57 | 75.98 |
| Japanese Yen | 1,50,00,000 | 2,50,00,000 | 3.20 | 2.40 |

- i) Determine the net exposure of each foreign currency in terms of Rupees.
- ii) Are any of the exposure positions offsetting to some extent ?



SECTION – C

Answer **any three** questions out of five. **Each** question carries **twelve** marks : (3×12=36)

8. Briefly discuss the three kinds of foreign exchange exposure.
9. EFD Ltd. is an export business house. The company prepares invoice in customers' currency. Its debtors of US \$ 10,000,000 is due on April 1, 2016.

Market information as at January 1, 2016 is

| Exchange rates US\$/INR | | Currency Futures US\$/INR | |
|-------------------------|----------|------------------------------|----------|
| Spot | 0.016667 | Contract size Rs. 24,816,975 | |
| 1-month forward | 0.016529 | 1-month | 0.016519 |
| 3-months forward | 0.016129 | 3-months | 0.016118 |

| | Initial Margin | Interest rates in India |
|----------|----------------|-------------------------|
| 1-Month | Rs. 17,500 | 6.5% |
| 3-Months | Rs. 22,500 | 7% |

On April 1, 2016 the spot rate US\$/INR is 0.016136 and currency future rate is 0.016134 which of the following methods would be most advantageous of EFD Ltd. ?

- i) Using forward contract
 - ii) Using currency futures
 - iii) Not hedging the currency risk.
10. From the following information find call and put option values (premium) using Black-Scholes model :
- Spot rate – Rs. 68.16/\$; Strike rate (E) – Rs. 69.50/\$; Maturity period – 6 months;
 Continuous compounding interest rate – 10.50% p.a.; Standard deviation – 0.54.



11. The interest rate in XYZ Country is 24 per cent annum, whereas it is only 8 per cent annum in the United States. You are considering investing \$ 10,000 for 180 days in XYZ's securities but are concerned about the exchange risk. XYZ's currency is crown. You find the following quotations in the newspaper in U.S. dollar terms :

| | |
|---------------------|----------|
| XYZ country (crown) | \$0.1000 |
| 30-days forward | 0.0980 |
| 90-days forward | 0.0970 |
| 180-days forward | 0.0950 |

Questions :

- Calculate the forward premium (discount) of the crown against the U.S. dollar (based on the 180-days quotation).
 - What is the net gain in U.S. dollars from investing in XYZ's securities relative to U.S. securities if it is assumed that the exchange rate in 180 days equals today's spot rate ?
 - Suppose the crown depreciates by 10 per cent relative to the dollar in the next 180 days. What is your net gain (or loss) from an uncovered position relative to investment in the United States ?
 - What is your net gain (or loss) from a covered position ? (Ignore transaction cost).
12. Write short notes in the following :
- Operations in foreign exchange market are exposed to number of risks
 - Exchange control
 - Speculation Vs hedging.