AQ–1383

M.B.A. (Semester—IV) Examination

FOREIGN EXCHANGE MARKET

Time : Three Hours] [Maximum Marks : 70

Note :— (1) Attempt **ALL** questions.

(2) Figures to the right indicate marks.

SECTION—A

1. (a) Do you agree that Floating exchange rate regime is a better option than the Fixed exchange rate regime ? 14

OR

(b) Define the principle of "Conditionality" as applied by the IMF. Is the IMF still applying this principle under the current international monetary system ? Why do a large number of countries find it difficult to accept the IMF prescription as a cure for their ailments ? 14

SECTION—B

2. (a) In a free market, what factors influence exchange rate ? Which of them apply mainly to long run exchange rate behaviour and which to short run exchange rate behaviour ? 7

(b) On April 1st, 3 months interest rate in the US $ and Germany are 6.5 % and 4.5 % p.a. resp. The US $ /DM spot rate is 0.6560. What would be the forward rate for DM, for delivery on 30th June ? 7

OR

(c) What is the essence of the monetary approach to exchange rate determination ? What are its major predictions concerning exchange rate movements ? 7

(d) Calculate the 3 month forward rate if spot rate is Rs. 46/US $; interest rate in India and the USA is respectively 6 % and 3 %. 7

3. (a) Discuss different types of currency exposures. 7

(b) A firm has agreed to supply fixed quantities of a certain product to a foreign buyer over the next two years at a fixed price in the buyer's currency. What sort of a currency exposure has this created ? Explain. 7

OR

(c) How can corporate hedging of translation exposure reduce the agency conflict between managers and other stakeholders ? In what other ways can agency conflicts be reduced ? 7

(d) For most companies the first and fundamental step in decision process is to view as to how exchange rate are likely to change over the exposure period ? Comment. 7

4. (a) Explain how Euro Currency and Euro Bond markets differ from one another ? 7

(b) LIBOR is considered as the benchmark for finalizing the terms of interest rates in the Euro-Credit market. Elaborate. 7

OR

(c) Explain Euro-banking in the context of International financial markets. 7

(d) Suppose the French Government imposes an interest rate ceiling on French bank deposits, what is the likely effect on the Euro Franc interest rates of this regulation ? 7

SECTION—C

5. Sun pharma Ltd. wishes to borrow Rs. 20 crore at a fixed rate for 5 years and has been offered either 11 % fixed or six month LIBOR + 1 %. CIPLA Ltd. wishes to borrow Rs. 20 crore at a floating rate for 5 years and has been offered either six month LIBOR + 0.5 % or 10 % fixed on the basis of above figure.

Questions :

(a) How may they enter into Swap arrangement in which each benefits equally ? 10

(b) What risk may this arrangement generate ? 4