

AP-303

M.B.A. (Semester-IV) Examination

FOREIGN EXCHANGE MARKET

Paper—MBA/4105/CGF

Time—Three Hours] [Maximum Marks—70

- Note :—** (1) Attempt **All** questions.
(2) Figures to right indicate marks.
(3) Use of scientific calculator is allowed.

SECTION—A

1. (a) Describe the historical developments of International Financial System. 14

OR

- (b) Discuss the role of IMF in today's financial system.
Is IMF important in global financial stability ? 14

SECTION—B

2. (a) In foreign exchange market, what are the :
(a) Direct Quotes,
(b) Indirect Quotes, and
(c) Cross Currency Quotes ? 7

- (b) An Indian importer is expected to pay U.S. Dollars 10 lakh 2 months from now.
Current spot rate is 1USD = 60.0000 INR
2 month forward rate is 1USD = 60.7500 INR
The newspaper report forecast that weaker economic U.S. data will lead to depreciation of USD against INR next month. What Indian importer should do and why ? Justify. 7

OR

- (c) Explain different types of Foreign Exchange Market. 7
- (d) Suppose the exchange rate for Indian rupee is currently INR 62.5000 = 1USD
If interest rates in USA = 2% and
Interest rates in India = 10%,
what must be the forward rate to prevent covered interest arbitrage ? 7
3. (a) Write in short factors affecting exchange rate movements. 7
- (b) Interest rates in India are 10%
Interest rates in Japan are 1%
Indian company wants to borrow in Japanese Yen (JPY) for one year. The amount is 50 lakh JPY
current spot rate between Indian rupee and USD = 1USD = 63.0000 INR and

SECTION—C

5. Jardine Inc. is a leading equipment manufacturer based in USA. Jardine is increasingly seeing demand for its products in European market. Company is considering to invest Euro 100 million in Germany over next five years. Company expect to be break even 5 years after completing its full investment.

Jardine's balance sheet in USA has USD 2000 million assets and USD 700 million equity. Its liabilities are USD 1300 million.

Jardine expect its European yearly reserves of Euro 100 million in first year and Euro 500 million in year 6.

What Jardine should do ?

- (a) Issue a Euro bond 5
(b) Long-term Euro debt 5
(c) USD bond in USA. 4

Interest rate in USA are 2.5% and in Euro are 2.25%.
Discuss.

similarly $1\text{USD} = 115\text{ JPY}$

if at the end of one year

$1\text{USD} = 62.0000\text{ INR}$ and

$1\text{USD} = 110.0000\text{ JPY}$

How much the borrower will save/lose ? Show your calculations. 7

OR

(c) How would you formulate company's foreign exchange risk management strategy? What factors will you take into consideration ? 7

(d) You are an exporter of handicrafts in Amravati. You are expecting to receive USD 200,000 (2 lakhs) from your customer in USA. The exchange rate is likely to fluctuate (either appreciation of Indian Rupee or depreciation of Indian rupee). What actions will you take ? Explain in detail. 7

4. (a) What are various types of SWAPS ? How they benefit end users ? 7

(b) TATA Steel has BB+ rating and SBI has A+ rating. SBI can borrow as follows :

	Fixed	Floating
SBI	10.5%	LIBOR + 0.10%

whereas Tata Steel can borrow as :

	Fixed	Floating
Tata Steel	11.5%	LIBOR + 0.50%

SBI prefers floating rate and Tata Steel prefers fixed rate. If broker is getting 0.10% as commission, design a swap. 7

OR

(c) Explain the following terms :

- (i) Call option
- (ii) Put option
- (iii) Strike price
- (iv) Expiry price
- (v) In the money option
- (vi) At the money option
- (vii) Out of the money option. 7

(d) An Indian importer has to pay USD 100,000 2 months from now to a company in USA. He expects Indian Rupee to depreciate from current levels of Rs. 62/USD to Rs. 64/USD

Explain how he can hedge foreign exchange risk using call option (only).

You can assume a strike price = 62

Premium paid = Rs. 0.50

Duration = 2 months and

Price at expiry = 64 7