

**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 the right indicate marks.

SECTION—A

1. (a) Discuss the evolution of IMF. Critically examine the role and ideologies of the IDA, IFC and MIGA institution. 14

OR

- (b) Discuss the main developments of International Financial System with rise and fall of Bretton Woods. 14

SECTION—B

2. (a) Explain different theories of exchange rate determination. 7
(b) Suppose over a period of two years the US price index moves from 110 to 125 and the Japanese price index moves from 105 to 110. The spot exchange rate is \$1 = Yen 112. What would be the spot exchange rate in 2 years ? 7

OR

- (c) What is Foreign Exchange Market ? Explain the role of participants in Foreign Exchange Market. 7
(d) The US inflation rate is expected to average about 4 percent annually, while the Indian rate of inflation is expected to average about 12 percent annually. If the current spot rate for the rupee is \$0.0285, what is the expected spot rate in two years ? 7
3. (a) Examine the relevance of exchange rate forecast in a floating-rate regime. 7
(b) A company expects cash flow from its new project to the extent of \$ 5,000, \$ 6,500 and \$ 6,000 respectively during the first three years of its operation. However, due to changes in exchange rate/inflation rate, the cash flow is affected and it will change to \$ 4,000, \$ 5,800 and \$ 5,200. Find the magnitude of the possible real operating exposure during the initial year of operation assuming a discount rate of 10 percent. 7

OR

- (c) What is Translation Exposure ? Discuss different methods of translation. 7
(d) The rate of interest on investment in the money market is 9 percent p.a. Spot rate is Rs. 45.10/\$ and a 90-day forward rate is Rs. 45.15. Which of the two hedge should be preferred by an importer of \$1,000 import ? 7

SECTION—C

4. (a) What are different types of International Bond ? Discuss in detail. 7
(b) What do you mean by Euro notes ? How are they different from Euro Commercial Paper ? 7

OR

- (c) Explain various factors taken into account while raising funds from International Financial Market. 7
(d) Discuss short-term and medium-term instruments of International Financial Market 7

SECTION—D

5. A UK importer has to pay \$ 100,000 in a month's time. He fears an appreciation of the dollar. What can he do with the knowledge of the following data ?

1-m interest rate : US \$: 4 percent

UK £ : 5 percent

Spot rate : \$ 1.5537/£.

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