

AT-1453

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) What is IMF ? Explain the objectives of IMF. Also describe the main features of IMF. 14

OR

- (b) What do you understand by the present International Financial System ? Discuss the cooperative efforts to strengthen the International Monetary System. 14

SECTION-B

2. (a) What is foreign exchange market ? Critically examine the impact of developments in the emerging foreign exchange markets. 7
(b) A company has purchased equipment from an American firm for \$ 60,00,000 payable in 4 annual instalment. The first instalment is payable immediately. The US company allows, credit at 6% p.a. The purchaser, whose revenues are in sterling, is at risk from an appreciation of the US dollar against sterling. The purchaser shops around for forward contracts and finds that the UK subsidiary of a US bank is prepared to offer one, two and three year forward contracts at £1 = \$1.47, £1 = \$1.44 and £1 = \$1.41 respectively. The spot rate is £1 = \$1.50. Should the forwards be used to restructure the debt ? 7

OR

- (c) Explain the structure of foreign exchange market. 7
(d) Given the following information,
Compute the forward rate for US dollars for 6 months and 9 months forward.
Spot USD 1 = Rs. 46.25
Interest rate in Mumbai :
1 to 6 months 6% p.a.
6 months to one year 7% p.a.
Interest rate in USA 1 month to 12 months 5% p.a. 7

3. (a) Define exposure management. Discuss the general principles of supporting in exposure information system. 7
- (b) Studies have found that corporations based in the United States typically have low exposures to other currencies. In contrast, studies have found that a much higher percentage of firms in other countries (including Canada, Germany and Japan) are exposed to the dollar. Why might this be ? What does it suggest about currency risk management in these countries relative to currency risk management in the United States ? 7

OR

- (c) Define Transactions exposure. What will be your approach in managing the transaction exposure of your firm ? 7
- (d) Among the three types of exposure : translation, transaction and economic, which is the easiest to manage ? Which is the most difficult ? Explain your reasoning to support your answer. 7

SECTION-C

4. (a) Trace-out the factors that lead to the development of Eurocurrency market. 7
- (b) What do you understand by international bond market ? Discuss the features of international bond market. 7

OR

- (c) What is Eurobond ? How is it differ from domestic bond ? 7
- (d) What is Eurocredit ? Explain the role of syndication in Eurocredits. 7

SECTION-D

5. A bank does a swap of USD 1,00,000 selling spot and buying two months forward. US dollar is quoted locally at Rs. 49.1900/2200. Two months forward is quoted at 30p. above spot rate. Interest in Mumbai is 12% p.a. Interest in New York is 6% p.a. Brokerage on swap deal is 1.5 paise per Rs. 100. You are required to calculate the gain/loss made by the bank on the swap.

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