

**M.B.A. Semester—IV Examination  
FOREIGN EXCHANGE MARKET  
Paper—MBA/4105/CGF**

Time : Three Hours]

[Maximum Marks : 70

**N.B. :—** (1) Attempt ALL questions.

(2) Figures to the right indicate marks.

**SECTION—A**

1. (a) 'The I.M.F. is a financial co-operate in some ways like a credit union. Do you agree ? Explain. 14

**OR**

- (b) Discuss the salient features of Gold Standard and the reasons of its failure. 14

**SECTION—B**

2. (a) Who are the major participants in a foreign exchange market ? 7  
(b) Following rates are quoted in Paris : \$ 1.5537–50 for pound sterling and \$ 0.1982–98 for French Franc. What is the direct quote for pound sterling in Paris ? 7

**OR**

- (c) Briefly explain arbitrage, Direct quote and Indirect quote. 7  
(d) If exchange rate at the end of 2004–05 is Rs. 43.91/US \$ and if the rate of inflation in India and USA during 2005–06 is respectively 7 per cent and 4 percent. Find :  
(i) inflation rate differential between the two countries, and  
(ii) the exchange rate at the end of 2005–06. 7
3. (a) Identify the different ways in which a foreign exchange dealer can hedge a forward transaction. State briefly how each is done. 7  
(b) Company ABC and XYZ have been offered the following rates per annum on a \$ 200 million five – year loan :

	Fixed Rate	Floating Rate
Company ABC	12.0	Libor + 0.1 %
Company XYZ	13.0	Libor + 0.6 %

Company ABC requires a floating rate loan; company XYZ requires a fixed rate loan. Design a swap that will net a bank acting as intermediary 0.1 percent per annum and be equally attractive for both the companies. 7

**OR**

- (c) What are the three ways in which future contracts reduce credit risk ? 7
- (d) A can borrow floating-rate funds from dollar market at 1 year LIBOR or it can borrow fixed-rate Euro at 7 percent. B can borrow floating rate funds from US dollar market at LIBOR + 25 b.p. or can borrow fixed rate funds from the Euro market at 8.25 percent. B needs fixed-rate Euro. A needs floating-rate dollar. Can the currency swap be gainful to both of them ? 7

#### SECTION—C

4. (a) Explain in brief the features of international bond market. 7
- (b) Discuss the valuation process of Eurobond. 7

#### OR

- (c) What are reasons for the growth of Euro Money Market ? 7
- (d) There are several methods of measuring the size of the Euro-currency market. Comment on this statement and list the reasons for these different measurements. 7

#### SECTION—D

5. Your affiliate in the Philippines declared a dividend of 50,000,000 pesos which is transferable in six months to the parent company in the United States. You are worried about adverse economic and political developments in the Philippines that could trigger a sharp depreciation of the peso during the next six months. Your attempts to hedge in the forward market were unsuccessful, as your bankers were not able to quote you a forward rate for the peso. You are looking at two options :
- (i) Invest the peso funds in Philippines government securities yielding 10 percent per annum, and take the risk of the exchange rate that will prevail six months from now.
- (ii) You were approached by a U.S. firm operating in the Philippines which needed local funds. They expressed their willingness to borrow ₱ 50,000,000 from your affiliate against a payment in U.S. dollars of \$ 2,250,000 to your bank in the United States in six months.

You asked your staff to Research the prospects of the peso/dollar exchange rate in the next six months. They compiled the following data :

	Spot Rate in Six Months		
Current Spot Rate	No change	Best case Scenario	Worst case Scenario
18.5	18.5	20.0	24.0

The no-change case assumes that the Central Bank of the Philippines will support the rate at the current level during the next months.

- (a) Which course of action will you take in each of the three scenarios ?  
(Show all calculations)
- (b) Which course of action will you take assuming that you assign the following probabilities to the future spot rate scenarios ?
- No change 10 %  
 ₱ / \$ 20.0 25 %  
 ₱ / \$ 24.0 65 %.

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