IV Semester M.Com. Examination, June/July 2018
(CBCS)
COMMERCE
FB 4.2 : FOREX Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** questions out of ten. **Each** question carries **two** marks. **(7×2=14)**

1. a) Explain Economic Exposure.
   b) Explain Balance of Visible Trade.
   c) Write a note on vehicle currency.
   d) Devaluation and revaluation of currency.
   e) What is capital account convertibility ?
   f) Which institution can cover political risk of project ? How ?
   g) Differentiate between Bulls and Bears in foreign exchange market.
   h) Find the cross rate of Swiss Francs in India, given that
   YEN/IND : 107.07/108.32
   SFR/YEN : 76.62/77.03
   i) Spot GBP/USD = 1.55/59; 3-M Swap points = 70/60. Determine the forward quotes.
   j) If exchange rate at the end of 2015 – 2016 USD/CHF = 0.7520. If inflation in US is 3.5% and in Swiss it is 8.5%. Calculate the expected exchange rate after two year.

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks. **(4×5=20)**

2. How far SDR have been able to solve the problem of international liquidity ?
3. Examine various aspects of EMU.
4. Explain in detail purchasing power parity.
5. Explain various channels through which capital flows from rich to poor countries ?

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6. From the following data calculate the possibilities of a gain/loss in arbitrage.
   Spots rate FFR 6.00 = US $ 1
   6 months forward rate FFR 6.0020 = $ 1
   Annualized interest rate on 6 months US $ = 5%
   Annualized interest rate 6 months FFR = 8%
7. The following quotes are available :
   Spot ($/Euro) : 0.8385/0.8391
   3 months forward 20/30
   Spot ($/Pound) 1.4548/1.4554
   3 months forward 35/25
   I) Find the 3 month(Euro/Pound) outright forward rates.
   II) Indicate their spreads and percentage spread.

SECTION – C

Answer **any three** questions out of six. **Each** question carries **twelve** marks. **(3×12=36)**

8. Suppose that the current spot exchange rate is € 0.80/$ and the three month forward exchange rate is € 0.7813/$. The three-month interest rate is 5.60 percent per annum in the United States and 5.40 percent per annum in France. Assume that you can borrow up to $1,000,000 or € 800,000.
   a) Show how to realize a certain profit via covered interest arbitrage, assuming that you want to realize profit in terms of U.S. dollars. Also determine the size of your arbitrage profit.
   b) Assume that you want to realize profit in terms of euros. Show the covered arbitrage process and determine the arbitrage profit in euros.
9. Discuss the major trends that have prevailed in international business during the last two decades.
10. Explain the random walk model for exchange rate forecasting. Can it be consistent with the technical analysis ?
11. Assume you are a trader with Deutsche Bank. From the quote screen on your computer terminal, you notice that Dresdner Bank is quoting € 0.7627/$ 1.00 and Credit Suisse is offering SF1.1806/$1.00. You learn that UBS is making a direct market between the Swiss franc and the euro, with a current €/SF quote of .6395. Show how you can make a triangular arbitrage profit by trading at these prices. (Ignore bid-ask spreads for this problem). Assume you have $ 5,000,000 with which to conduct the arbitrage. What happens if you initially sell dollars for Swiss francs ? What €/SF price will eliminate triangular arbitrage ?
12. Write short notes on the following :
    a) Crawling Peg.
    b) Euro – as currency of EU.
    c) Un-sponsored Depository Receipts.

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