5/46

2304M219

Candidate's Seat No : _____

M.B.A. GM (FM) Semester-4 Examination

LS-406

IFM

April-2024

Time : 2-30 Hours] **[Max. Marks : 70**

Q-1	A) Explain : Exchange rate differentiation between two countries is equal to Interest rates differentiation of both the countries.	08
	B) The rate of inflation in India is 8% per annum and in the U.S.A. it is 4%. The current spot rate for USD in India is Rs. 46. What will be the expected rate after 1 year and after 4 years applying the Purchasing Power Parity Theory.	06
Q-2	A) You sold Hong Kong Dollar 1,00,00,000 value spot to your customer at ` 5.70 & covered yourself in London market on the same day, when the exchange rates were US$ 1 = H.K.$ 7.5880- 7.5920 Local inter bank market rates for US$ were Spot US$ 1 = 42.70 - 42.85 Calculate cover rate and ascertain the profit or loss in the transaction. Ignore brokerage.	07
	B) Write a note on Forward and Futures in Forex with differentiations.	07
	OR	

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M 219-2

	A) An importer booked a forward contract with his bank on 10th April for USD 2,00,000 due on 10th June @ ` 64.4000. The bank covered its position in the market at ` 64.2800.	10
	The exchange rates for dollar in the interbank market on 10th June and 13th June were:	

	10th June	13th June
Spot USD 1=	Rs. 63.8000/8200	Rs. 63.6800/7200
Spot/June	Rs.63.9200/9500	Rs.63.8000/8500
July	Rs.64.0500/0900	Rs.63.9300/9900
August	Rs.64.3000/3500	Rs.64.1800/2500
September	Rs.64.6000/6600	Rs.64.4800/5600

Exchange Margin 0.10% and interest on outlay of funds @ 12%. The importer requested on 14th June for extension of contract with due date on 10th August.

Rates to be rounded off to 4 decimals in multiples of 0.0025.

On 10th June, Bank Swaps by selling spot and buying

one month forward. Calculate:

(i) Cancellation rate

(ii) Amount payable on $ 2,00,000

(iii) Swap loss

(iv) Interest on outlay of funds, if any

(v) New contract rate

(vi) Total Cost

B) Explain Following: **04**

- Balance of Trade
- Interbank and Merchant bank rates

Q-3

A) EFD Ltd. is an export business house. The company prepares invoice in customers' currency. Its debtors of US$. 10,000,000 is due on April 1, 2015. **06**

Market information as at January 1, 2015 is:

Exchange rates US$/INR		Currency Futures US$/INR
Spot	0.016667	Contract size: ` 24,816,975

1-month forward	0.016529	1-month	0.016519
3-months forward	0.016129	3-month	0.016118
	Initial Margin	Interest rates in India	
1-Month	Rs. 17,500	6.5%	
3-Months	Rs. 22,500	7%	

On April 1, 2015 the spot rate US$/INR is 0.016136 and

currency future rate is 0.016134. Which of the following

methods would be most advantageous to EFD Ltd?

I. Using forward contract
II. Using currency futures
III. Not hedging the currency risk

B) XYZ, an Indian firm, will need to pay JAPANESE YEN (JY) 5,00,000 on 30th June. In orderto hedge the risk involved in foreign currency transaction, the firm is considering two alternative methods i.e. forward market cover and currency option contract. **04**

On 1st April, following quotations (JY/INR) are made available:

Spot 3 months forward

1.9516/1.9711. 1.9726./1.9923

The prices for forex currency option on purchase are as follows:

Strike Price JY 2.125

Call option (June) JY 0.047 Put option (June) JY 0.098

For excess or balance of JY covered, the firm would use forward rate as future spot rate. You are required to recommend cheaper hedging alternative for XYZ.

C) Your forex dealer had entered into a cross currency deal and had sold US $ 10,00,000 against EURO at US $ 1 = EURO 1.4400 for spot delivery. **04**

However, later during the day, the market became volatile and the dealer in compliance with his management's guidelines had to square – up the position when the quotations were:

Spot US $ 1	INR 31.4300/4500
1 month margin	25/20
2 months margin	45/35
Spot US $ 1	EURO 1.4400/4450

P.T.O

M 219-Gr

	1 month forward 1.4425/4490 2 months forward 1.4460/4530 What will be the gain or loss in the transaction? OR A) XYZ Ltd. a US firm will need £ 3,00,000 in 180 days. In this connection, the following information is available: Spot rate 1 £ = $ 2.00 180 days forward rate of £ as of today = $1.96 A call option on £ that expires in 180 days has an exercise price of $ 1.97 and a premium of $ 0.04. XYZ Ltd. has forecasted the spot rates 180 days hence as below: Future rate | Probability $ 1.91 | 25% $ 1.95 | 60% $ 2.05 | 15% Which of the following strategies would be most preferable to XYZ Ltd.? (i) A forward contract; (ii) An option contract; (iii) No hedging. B) Write a note on International Bond market and Types of Bonds.	07 07
Q-4	A) M/s Omega Electronics Ltd. exports air conditioners to Germany by importing all the components from Singapore. The company is exporting 2,500 units at a price of Euro 500 per unit. The cost of imported components is S$ 800 per unit. The fixed cost and other variables cost per unit are Rs.1,000 and Rs.1,500 respectively. The cash flows in Foreign currencies are due in six months. The current exchange rates are as follows Rs./Euro 52.50/55 Rs./S$ 26.20/25	10

	After six months the exchange rates turn out as follows: Rs./Euro 52.00/05 Rs./S$ 27.70/75 You are required to calculate loss/gain due to transaction exposure. Based on the following additional information calculate the loss/gain due to transaction and operating exposure if the contracted price of air conditioners is Rs.25,000 (i) the current exchange rate changes to Rs./Euro 52.75/80 Rs./S$ 26.10/15 (ii) Price elasticity of demand is estimated to be 1.5 (iii) Payments and receipts are to be settled at the end of six months. B) Name out Internal and External Hedging techniques. **OR** A) Write a note on Types of Exposures. B) A Inc. and B Inc. intend to borrow $200,000 and $200,000 in ¥ respectively for a time horizon of one year. The prevalent interest rates are as follows: Company ¥ Loan $ Loan A Inc 5% 9% B Inc 8% 10% The prevalent exchange rate is $1 = ¥120. They entered in a currency swap under which it is agreed that B Inc will pay A Inc @ 1% over the ¥ Loan interest rate which the later will have to pay as a result of the agreed currency swap whereas A Inc will reimburse interest to B Inc only to the extent of 9%. Keeping the exchange rate invariant, quantify the opportunity gain or loss component of the ultimate outcome, resulting from the designed currency swap.	**04** **07** **07**
Q-5	Write a note on Following (Any 3) 1. Types of Letter of Credit (Namee only) 2. International Sources of finance 3. International banking & Monetary Market 4. Export Credit Risk Insurance 5. FDI & Cross border Mergers	**14**