



IV Semester M.Com. Degree Examination, November 2023

(CBCS)

(2021-22)

COMMERCE (Finance and Banking)

FB : 4.3 : 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) Expand SWIFT.
- b) What do you mean by hedging ?
- c) Give the meaning of cross rates.
- d) How arbitrage is different from speculation ?
- e) What is plain vanilla swap ?
- f) What do you mean by exposure ?
- g) List the participants of forex markets.
- h) What do you mean by balance of payment ?
- i) What is direct quote ?
- j) What are floating rate ?

SECTION – B

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

2. Discuss the factors influencing the exchange rate.
3. Explain the types of exposures in forex market.
4. What is options ? Explain its types.
5. A foreign exchange trader gives the following quotes for the Euro Spot, one month, three months and six months to a US based treasurer.
\$0.02368/70 4/5 8/7 14/12. Calculate the outright quotes for one, three and six months forward.



6. How are exchange rates determined under the following three systems : Free Float, Managed Float and Currency Pegging. Give illustration.
7. X Ltd., wishes to borrow US\$ at a fixed rate of interest. Y Ltd. wishes to borrow Japanese Yen at a fixed rate of interest. The amounts required by both the companies are roughly the same at current exchange rate. The companies have been quoted the following interest rate :

	Dollar	Yen
X Ltd.	4.00%	8.60%
Y Ltd.	5.50%	9.00%

Design a swap that will net a bank, acting as intermediately, 50 basis points per annum. Make the swap equally attractive to the two companies and ensure that all foreign exchange risk is assumed by the bank.

SECTION – C

Answer **any two** questions out of four. **Each** question carries **twelve** marks : (2×12=24)

8. Discuss the Purchasing Power Parity (PPP) theory and the rationale behind it.
9. Write a short note on :
- Gold Standard
 - Basket of Currencies
 - Asset Market Model.
10. “Determination of Exchange Rates remains a mystery”. In light of this statement explain the factors that determine the FOREX.
11. Given the following data :
- Spot rate : Rs. 42.0010 = \$1
- 6 months forward rate : Rs. 42.8020 = \$1
- Annualised interest rate : Rupee = 12%
- Annualised interest rate : Dollar = 8%
- Calculate the arbitrage possibilities assuming the possibility for an investment of \$ 1000 by taking a loan at 8% in the US.



SECTION – D

Compulsory skill based question on subject :

(1×12=12)

12. Chemex, a U.S. maker of speciality chemicals, exports 40 percent of its \$600 million in annual sales : 5 percent goes to Canada and 7 percent each to Japan, Britain, Germany, France, and Italy. It incurs all its costs in U.S. dollars, while most of its export sales are priced in the local currency.

- a) How is Chemex affected by exchange rate changes ?
 - b) Distinguish between Chemex's transaction exposure and its operating exposure.
 - c) How can Chemex protect itself against transaction exposure ?
 - d) What financial, marketing, and production techniques can Chemex use to protect itself against operating exposure ?
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