PG – 1307

IV Semester M.Com. Degree Examination, August/September 2025
(CBCS Scheme) (2021 – 22)
COMMERCE
FB 4.3 : Forex Management

Time : 3 Hours Max. Marks : 70

SECTION – A

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

   a) What do you mean by Managed Float System ?

   b) What is Fixed Exchange Rate ?

   c) Expand SWIFT and LERMS.

   d) What is Economic Exposure ?

   e) Define Hedging.

   f) What is meant by Basket of Currencies ?

   g) What are Currency options ?

   h) Define Flow Model.

   i) What do you mean by Margin ?

   j) The forward rate (60 days) for the Rupee is 49.05/$ whereas the spot rate for it is 48.20/$. Calculate the forward discount on Indian Rupee.

SECTION – B

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

2. Explain the Purchasing Power Parity Theory with assumptions and criticisms.

3. Differentiate between fixed exchange rates and floating exchange rates.

4. Explain the recent developments in Forex Market.

5. Explain the costs associated with international payments.

P.T.O.

6. Followings are the spot exchange rates quoted at three different forex markets :

   USD/INR 59.25/59.35 in Mumbai

   GBP/INR 102.50/103.00 in London

   GBP/USD 1.70/1.72 in New York

   The arbitrageur has USD 1,00,00,000. Explain whether there is any arbitrage gain possible from the quoted spot exchange rates.

7. Consider the following data :

Particulars	
Stock price	Rs. 50
Months to Expiration	3 months
Risk free rate of Interest	10% p.a.
Standard Deviation of Stock	40%
Exercise price	Rs. 55
Option Type	European call

   Calculate the value of call option as per Black Scholes Model.

SECTION – C

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

8. Explain the internal and external hedging strategies.

9. Given the following information data :

   Spot rate Rs. 43.0010 = $1

   6 months forward rate : Rs. 43.8020 = $1

   Annualized interest rate : Rupee = 13.5%

   Annualized interest rate : Dollar = 9.5%

   Calculate the arbitrage possibilities assuming the possibility for an investment of $1200.

10. Explain how fundamental and technical analysis helps in forecasting forex rates.

11. Columbus Surgicals Inc. is based in US, has recently imported surgical raw materials from the UK and has been invoiced for £ 4,80,000, payable in 3 months. It has also exported surgical goods to India and France.

The Indian customer has been invoiced for £ 1,38,000, payable in 3 months and the French customer has been invoiced for € 590,000, payable in 4 months.

Current spot and forward rates are as follows :

£/US $	
Spot	0.9830 – 0.9850
Three months forward	0.9520 – 0.9545
US $ /€	
Spot	1.8890 – 1.8920
Four months forward	1.9510 – 1.9540
Current money market rates are as follows :	
UK	10.0% – 12.0% p.a.
France	14.0% – 16.0% p.a.
USA	11.5% – 13.0% p.a.

You as Treasury Manager are required to show how the company can hedge its foreign exchange exposure using Forward markets and Money markets hedge and suggest which the best hedging technique is ?

SECTION – D

12. Answer the following question : **(1×12=12)**

Dreher Brewery, a company operating in Hungary is a landlocked country in Central Europe, has today effected sales to an Indian FMCG company, the payment being due 6 months from the date of invoice. The invoice amount is 227 lakhs Hungarian Forint (HUF). At today's spot rate, it is equivalent to ₹ 53.92 lakhs. It is anticipated that the exchange rate will decline by 11% over the 6 months period and in order to protect the HUF payments, the importer proposes to take appropriate action in the foreign exchange market. The 6 months forward rate is presently quoted as 3.91 HUF per rupee. You are required to calculate the expected loss and to show how it can be hedged by a forward contract.