OP – 229

IV Semester M.Com. Examination, November 2022
(CBCS)
FINANCE AND BANKING
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) What is foreign exchange market ?

   b) Define Pips.

   c) State any four benefits of foreign exchange trading.

   d) What do you mean by American and European options ?

   e) Expand CHIPS and SWIFT.

   f) What do you understand by bull and bear market ?

   g) What do you mean by credit derivatives ?

   h) Consider the following bid-ask prices : Rs. 77.50 – 77.97/EUR.

   Find the spread and spread in %.

   i) State the significance of candlestick chart.

   j) Define covered interest arbitrage.

SECTION – B

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

2. Explain why do you think there is a need for foreign exchange risk management.

3. Describe any two methods of managing the translation or accounting exposures.

4. Distinguish between hedging and speculation.

5. If spot rate is given as £1 = \$1.6035, rate of interest for UK = 14% p.a. and USA = 17% p.a., assuming IRP holds good, calculate 3 months forward rate :

   a) If ROI compounded quarterly.

   b) If ROI compounded continuously.

P.T.O.

6. A foreign exchange trader gives the following quotes for the French franc spot, 1 month, 3 months and 6 months to US based treasures \$0.2968/75, 6/8, 11/9 and 15/13.

   a) Calculate the outright quotes for 1 month, 3 months and 6 months forward.

   b) What is the premium or discount in the 1, 3 and 6 month forward rate in annual percentages (assume you are buying French franc) ?

7. Describe forward rate agreements.

SECTION – C

Answer **any 3** questions out of 5. **Each** question carries **12** marks. **(3×12=36)**

8. Explain the foreign exchange market structure, mechanism and participants.

9. Explain in detail the theories of exchange rate determination.

10. From the following information, calculate call and put option values using Black-Scholes model :

    Current market price = Rs. 94/£, Exercise price/Strike price = Rs. 86/£, maturity period = 2 years and standard deviation = 17%, continuous compounding risk free interest rate = 8% p.a.

11. A US based Apex Company will need £ 665,000 in 180 days. In this connection, the following information is available :

    Spot rate : 1£ = \$4.15

    180 days forward rate of £ as of today = \$3.96

    Rates of interest in money market are as follows :

	UK	**US**
180 days deposit rate	5%	5.75%
180 days borrowing rate	7%	7.50%

A call option on £ that expires in 180 days has an exercise price of \$3.97 and a premium of \$0.04. Apex Company has forecasted the spot rates 180 days hence as below :

Future rate	Probability
\$3.91	25%
\$3.95	60%
\$4.05	15%

Which of the following strategies would be most preferable to Apex Company ?

a) A forward contract

b) A money market hedge

c) An option contracts

d) No hedging.

12. Write short notes on :

i) Financial swaps

ii) Interest rate future.