



## IV Semester M.Com. Examination, November 2022

(CBCS) (2021 – 22)

## COMMERCE (Finance and Banking)

## FB 4.3 : Forex Management

Time : 3 Hours

Max. Marks : 70

**Instruction** : Answer **all** the questions as per instructions.

## SECTION – A

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

1. a) What do you mean by foreign exchange rate ?
- b) Define Balance of Payment.
- c) What do you mean by depreciation of currency rate ?
- d) What is Managed Float System ?
- e) What do you mean by cross rate ?
- f) Expand SWIFT and LERMS.
- g) What is transaction exposure ?
- h) What are interest rate futures ?
- i) What is Loro Accounts ?
- j) The exchange rate for Mexican Peso was 0.1086 in October 2020 and 0.0913 in September 2021, against dollar. Which currency has depreciated and by how much ?

## SECTION – B

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

2. Explain the different types of settlement system in existence for the foreign trade.
3. Discuss the factors affecting the determination of spot exchange rate.

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4. Differentiate between currency forwards and currency futures.
5. The following rates appear in the foreign exchange market.

	Spot rate	2 months forward
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Rs/US \$	Rs. 75.80/76.05	Rs. 76.50/77.00
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- a) How many dollars should a firm sell to get Rs. 5 crores after 2 months ?
- b) How many rupees is the firm required to pay to obtain US \$ 2,00,000 in the spot market ?

6. The rate of inflation in India is 8% per annum and in the USA it is 4%. The current spot rate for USD in India is Rs. 76. What will be the expected rate after 1 year and after 4 years applying the purchasing power parity theory ?
7. Calculate the arbitrage gains possible on Rs. 10,00,000 from the middle rates given below. Assume there are no transaction costs.

Rs. 76.200 = £ 1 in London

Rs. 46.600 = \$ 1 in Delhi

\$ 1.5820 = £ 1 in New York

#### SECTION – C

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

8. Analyse the interrelationship between exchange rate, interest rate and inflation.
9. Discuss the different internal and external hedging strategies available for managing and reducing the forex risks by firm.
10. What is the difference between risk and exposure ? Explain major three types of exposure with reference to forex management.



11. Ask Ltd. London will have to make a payment of \$ 3,64,897 in six-month's time. It is currently 1<sup>st</sup> October. The company is considering the various choices it has in order to hedge its transaction exposure.

Exchange rates :

Spot rate (\$/£) \$ 1.5617 – 1.5773

Six-months forward rate \$ 1.5455 – 1.5609

Money market rates :

	<b>Borrow</b>	<b>Deposit</b>
US	6%	4.5%
UK	7%	5.5%

By making the appropriate calculations decide which of the following hedging alternatives is the most attractive for Ask Ltd. :

- a) Forward Market
- b) Cash (Money) Market.

SECTION – D

Answer the following question.

(1×12=12)

12. In 2020 the financial press reported that Lufthansa purchased \$ 500 million of new U.S. aircraft in early 2019 from Boeing, with payment due in early 2020, one year later. Lufthansa decided to hedge half of the purchase price using forward contracts possibly lacking a clear-cut view on the movement of dollar vis-à-vis DM. Lufthansa reportedly paid about DM 1,362 million, when it had to buy half the dollars at \$ 0.45/DM. Answer the following, if spot in early 2019 was \$ 0.31/DM.

- a) At what rate Lufthansa hedged half of their total exposure ?
- b) Had they hedged fully, would they have benefited ?
- c) Had they not hedged at all, would they have benefited ?
- d) During the period Lufthansa entered and actually settled the deal, which currency appreciated by how much (%) ?
- e) Comment on the strategy adopted by Lufthansa.