Q.P. Code : 60590

Fourth Semester M.Com. Degree Examination,
September/October 2020

(CBCS Scheme)

Commerce

Paper 4.2 – FOREX MANAGEMENT

Time : 3 Hours] *[Max. Marks : 70*

Instructions to Candidates :

For question 11, natural log tables A_1 and A_2 to be provided to students.

SECTION – A

Answer any **SEVEN** sub-questions. Each sub-questions carries **2** marks : **(7 × 2 = 14)**

1. (a) What do you mean by merchandise quote?

   (b) What is absolute purchasing power parity?

   (c) State the factors that influence exchange rates.

   (d) What is economic exposure?

   (e) What is swap rates?

   (f) Interest rates in India and USA are 10% and 7% respectively. The spot rate is Rs. 72.90/USD. Find 90 days forward rate.

   (g) Distinguish between American options and European options.

   (h) Define forward contract.

   (i) What is bilateral trade?

   (j) Distinguish between LIBOR and LIBID.

SECTION – B

Answer any **FOUR** questions carrying **5** marks each : **(4 × 5 = 20)**

2. Explain the monetary approach to Balance of Payment.

3. Explain the role of authorized persons in Forex market.

4. The following two way quotes appear in the Forex market :

   Rs./USD : Spot Rs. 73.30-73.60 (per USD)

   6 months forward rate : Rs. 73.50-73.80/USD

   (a) Calculate the dollar required to get Rs. 1,00,000 after 3 months

   (b) Rupee needed to purchase USD 200,000 after 3 months.

5. Explain the meaning and features of exchange traded options.

6. From the following data, examine the arbitrage opportunity and find out the profit assuming a borrowing of Rs. 10,00,000 :

   Spot rate – Rs. 73.40/USD ; 6 months forward rate – Rs. 73.70/USD

   Annualised interest rate on 6 month rupee – 8%

   Annualised interest rate on 6 month dollar – 6%

7. From the following particulars, determine 1, 3, 6 and 9 months forward rates.

   Spot rate – Rs. 73.20-73.40 per USD

1 Month Forward	3 Month Forward	6 Month Forward	9 Month Forward
9/12	12/15	10/8	9/7

   Also determine the premium/discount on 6 month forward rate.

SECTION – C

Answer any **THREE** questions. Each question carries **12** marks : **(3 × 12 = 36)**

8. Explain the types of purchasing parity theory and their impact on exchange rates.

9. An Indian importer imports goods worth USD 62500. He expects an appreciation of dollar. So he goes for hedging the risk. The currency market has the following data :

   (a) Spot rate on the date of contract – Rs. 73.00 per USD

   (b) Three months forward rate – Rs. 73.50 per USD

   (c) Strike rate in a three month call option – Rs. 73.60/USD + 5% premium

   (d) Spot rate on the date of payment of the bill – Rs. 73.90/USD.

   Which of the following choices is favorable to importer?

   – Forward contract

   – Call option

   – No hedge.

10. Explain the types of internal hedging and external hedging techniques used by importers and exporters.

11. From the following particulars, find the value of a call option and put option using Black and Scholes model :

    Current stock price – Rs. 120

    Strike price – Rs. 115

    Time period to expiration – 3 months

    Standard deviation of continuously compounded rate of return – 0.60

    Continuously compounded risk free rate of interest – 10%.

12. Explain the features of International Bonds.