Paper / Subject Code: 44807 / International Finance

26/11/19 Sem-V T464F

(2½ Hours) (Total Marks: 75)

N.B.: (1) All question are compulsory.

(2) Use Simple calculator is allowed.

Q1. A. Choose the correct alternatives (any Eight) : (08)

1. Using Future contracts to transfer price risk is called ____________

   a) Arbitraging b) Speculating c) Diversifying d) Hedging

2. USD AUD 0.9898 – 908 and USD SGD 1.2400 – 410, SGD AUD is ____________

   a) 0.7970 – 0.796 b) 0.7970 – 0.7998 c) 0.7976 – 0.7970 d) 0.7996 – 0.8000

3. In Holgate principle, if Bid > Ask, Swap Points for forward rate are to be __________

   a) Added b) subtracted c) multiplied d) divided

4. 1 GBP = $ 0.739, it is a direct quote for ________

   a) UK b) USA c) India d) none of these.

5. ____________ is based on the concept of "Law of one Price"

   a) IRP Theory b) PPP Theory c) Fishers Parity Theory d) none of these.

6. When a country experiences ________ its interest rates are likely to fall.

   a) Boom b) depression c) recession d) none of these

7. One who takes the long position is called as _________

   a) Buyer b) seller c) writer d) none of these

8. European Option can be exercised _______________

   a) On any date till maturity b) At the maturity c) Every month d) None of these

9. A _____________ account is an account a correspondent bank holds on behalf of another bank

   a) Nostro b) Vostro c) Loro d) None of these

10. It is a quote at which the participants are willing to buy or sell goods or services __________

    a) Bid b) Ask c) Spread d) Mid

Q1. B. Answer whether the below statements are true or false (Any seven) : (07)

1) PPP theory does not consider speculation in foreign exchange on inflation rate.
2) According to Prof. Fisher, nominal rate of interest depends on inflation rate.
3) Risk & Exposure are different.
4) Tariffs & Quotes reduces the demand for foreign exchanges.
5) Pay-off of Futures Contract is non-linear
6) Translation risk also called as "Accounting exposure".
7) The immediate (T+2) exchange of one currency for another is a spot transaction.
8) Economic risk is difficult to quality.
9) Option seller is also called as option holder.
10) There is very less transparency in forex trading.

Q2) (A) What is an option? What are the types of options? (08)

Q2) (B) What the features of Future contract? (07)

OR

Q2) (C) Current Index price is 1.200. Three-month risk- free rate is 3% pa. Dividend yield over the next three months is 1.2%pa. Six-month risk-free rate is 3.5% pa. Dividend yield over the next six months is 1% pa. Calculate fair value of Index future for three month and six month contracts. (All interest rate and dividend yields are continuously compounded). (08)

Q2) (D) If Mr. Anil buys a February Call option at a strike price of Rs. 600. If the spot price of the underlying asset in February is as follows :
Rs 550, Rs 620, Rs 570 and Rs. 600, Find the moneyness of this option. (07)

Q3) (A) Define foreign exchange market. What are the factors affecting changes in exchange rate? (08)
Q3) (B) Distinguish between Nostro and Loro Accounts. (07)

OR

Q3) (C) i) Mid-rate USD/EUR → 0.8842, Spread percentage USD/EUR → 0.1390% (08)
Calculate: (i) Spread Rate (ii) USD/EUR Quotation
ii) Given GBP/SEK → 7.4750 – 7.4850
Calculate: (i) Spread Rate (ii) Mid-Rate (iii) Spread %
Q3) (D) EUR/USD → 1.2950 – 60
USD/EUR → 0.7702 – 12 (07)
Identify and calculate arbitrage profit any exist.

Q4) (A) Distinguish between transaction risk and operating risk. (08)
Q4) (B) Explain the internal techniques of managing foreign exchange risk. (07)

OR

Q4) (C) Based on the following date calculate one, two and three month forward USD/INR and USD/CHF rates. (08)

Maturity	USD/INR	USD/CHF
Spot Rate	55.0725 – 55.0800	0.1095 – 0.1125
1 month forward	860 – 910	15 – 10
2 month forward	1800 – 1900	25 – 15
3 month forward	3075 - 3250	35 - 25

Q4) (D) 60 days forward USD/CHF → 1.9508
60 days AFM → Discount 0.75 % (07)
Calculate Spot USD/CHF rate.

Q5) (A) Explain different approaches of forecasting exchange rates. (08)
Q5) (B) Explain the advantages and disadvantages of purchasing power parity. (07)

OR

Q5) (C) Short Notes **(Any three)** : (15)
i) Option Contract
ii) Derivatives
iii) Spot and Forward Rates
iv) Arbitrageurs
v) OTC Market
