

(L)

PQ3AEO

Foreign Mkt.
20/3/12.

Time: 2 1/2 hrs

Marks: 75

NB: All questions are compulsory carrying 15 marks each.

Figures to the right indicate the total marks allotted to the question

Q1. (a) Multiple Choice Questions – Answer any eight.

(8)

1. _____ is the act of trading different currencies.
 - a. Foreign exchange
 - b. Arbitrage
 - c. Foreign Trade
 - d. Exportation

2. A _____ is the price of one currency in terms of another currency.
 - a. export price
 - b. import price
 - c. exchange rate
 - d. arbitrage price

3. The two basic types of exchange rates are the:
 - a. spot exchange rate and the forward exchange rate.
 - b. spot exchange rate and the future exchange rate.
 - c. present exchange rate and the forward exchange rate.
 - d. present exchange rate and the future exchange rate.

4. The spot exchange rate and the forward exchange rate differ by the:
 - a. location of the trade.
 - b. type of trader.
 - c. type of currency exchanged.
 - d. timing of the actual currency exchange.

5. The _____ exchange rate is the price for “immediate” currency exchange.
 - a. forward
 - b. spot
 - c. future
 - d. current

6. The _____ exchange rate is the price now for a currency exchange that will take place sometime in the future.
 - a. forward
 - b. spot
 - c. future
 - d. current

10. The foreign exchange market is:
 - a. a single gathering place where traders shout buy and sell orders at each other.
 - b. a grouping, by electronic means, of banks and traders who work at banks that conduct foreign exchange trades.
 - c. located in New York.
 - d. located in London.

1. Define Bid Price of a quotation.
2. What is arbitrage?
3. Define Base Currency.
4. What is a Direct Quotation?
5. Define Floating Exchange Rate?
6. Expand FEDAI
7. What do you understand by marked to market margin?
8. When will you say an Option is at-the- money?
9. Define Credit Risk?
10. Define hedging.

Q2.a) What is foreign exchange market? Explain its functions. (8)

b) What are the reasons for failure of Bretton Woods System? (7)

Or

a) What are the merits and demerits of fixed exchange rate system? (8)

b) Distinguish between risk and exposure? (7)

Q3.a) What are the various determinants of exchange rate? (8)

b) What are the various internal hedging techniques? (7)

Or

c) Define an option and explain the option terminology. (8)

d) Distinguish between forwards and futures. (7)

Q4. a) Study the following quote

1 USD = NZD 1.5510/1.5560

Find the midrate, spread and percentage spread. Find the inverse quote. (8)

b) The following quotes are from New York (7)

1 GBP = USD 1.5975/1.6010

1 EUR = USD 1.2375/1.2390

Find the cross rate GBP/EUR.

The following quote is from Frankfurt

1 GBP = EUR 1.2950/1.2965

Find if there is any arbitrage opportunity and if yes calculate the same.

Or

c) Study the following quotes (8)

USD/INR = 49.5600/49.5700

1 month forward 600/700

2 month forward 1500/1600

3 month forward 1800/1700

4 month forward 2200/1900

Calculate the forward rates

d) From the given details calculate interest rate arbitrage (7)

Spot GBP/USD = 1.5000

3month Forward GBP/USD = 1.4985

GBP interest 6% per annum

USD interest rate 5% per annum

Q5. Write short notes- Any three (15)

a. AFM

b. Smithsonian Agreement

c. Types of Forex Dealings

d. Vehicle Currency

e. FEMA Vs FERA