

AS-805

M.B.A. Semester—IV Examination
FOREIGN EXCHANGE MARKET
Paper—MBA/4105/CGF

Time : Three Hours]

[Maximum Marks : 70

Note :—(1) Attempt **ALL** questions.

(2) Figures to the right indicate marks.

SECTION—A

1. (a) Discuss the organisational structure and functions of International Monetary System. 14

OR

- (b) What is main purpose of IMF ? To what extent, in your opinion, have these purpose been fulfilled today ? Justify your answer. 14

SECTION—B

2. (a) Describe the salient features of a well-developed foreign exchange market. 7
- (b) The exchange rate for US dollar is Rs. 46.50 spot and Rs. 46.55 3 months forward. You are certain that after 3 months dollar will be Rs. 46.60. What action will you take to speculate in the forward market ? What is the expected speculative profit ? If the spot rate for dollar turns out to be Rs. 46.53 after 3 months, what speculative profit you will realise ? 7

OR

- (c) Discuss factors that are affecting exchange rate determination. 7
- (d) Currently the spot exchange rate is Rs. 58.65 per Euro and three months forward rate is Rs. 59.40. The six months interest rate is 5.4% in France and 6.7% in India. You can borrow up to Rs. 1 million. Determine whether interest rate parity is maintained. If not, show how to realise a certain profit via covered interest arbitrage. Compute the size of your arbitraging profit. 7

3. (a) What do you understand by exposure management ? Explain the functions of exposure management. 7
- (b) A South Korean firm is exporting subcompacts to the Indian market, relying on low production cost in South Korea to penetrate the India market primarily on the basis of price appeal. Faced with a combination of stiffening competition from Japanese cars in the same category and a sharp depreciation of the Indian rupee against its own currency, what production and marketing adjustments are advisable to protect its market in India ? 7

OR

- (c) What factors affect the firm's degree of translation exposure ? Explain how each factor influences translation exposure. 7
- (d) Does foreign exchange risk matter ? Discuss what multinational companies use to manage their exposure. Examine both the economic fundamentals and the behavioural consideration of the corporate treasurer. 7

SECTION—C

4. (a) What are the major factors that are responsible for the growth of the international bond market ? 7
- (b) What is LIBOR ? What determines the spread over LIBOR charged borrowers for Euro currency credit and loans ? 7

OR

- (c) What do you understand by Euro-currency market ? Explain the features of Euro currency market. 7
- (d) Distinguish between traditional international banks, Eurobanks and Off-shore banking centres. 7

SECTION—D

5. A currency swap has a remaining life of 15 months. It involves exchanging interest at 14 percent on £ 20 million for interest at 10 percent on 30 million once a year. The term structure of interest rates in both the U.K. and the U.S. is currently flat and if the swap were negotiated today the interest rate exchanged would be 8 percent in dollars and 11 percent in sterling. All interest rates are quoted with annual compounding. The current exchange rate is 1.6500. What is the value of the swap to the party paying sterling ? What is the value of the swap to the party paying dollars ? 14