

AU-1645

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) What is IMF ? Discuss different funding facilities through which IMF provides support to member countries. 14

OR

- (b) “Gold standard provided price stability besides automaticity in exchange rate and BOP adjustment.” Discuss. 14

SECTION—B

2. (a) Explain various factors determining exchange rate in the spot market. 7
(b) If the \$: Yen spot rate is \$ 1 = Yen 110 and interest rates in Tokyo and New York are 3 and 4.5 per cent respectively, what is the expected Dollar Yen exchange rate one year hence ? 7

OR

- (c) Identify the different ways in which a foreign exchange dealer can hedge a forward transaction. State briefly how each is done. 7
(d) In January, the one-year interest rate is 4 per cent on Deutschemark and 6 percent on Pound sterling. The spot exchange rate is £ 0.4322 = \$ 1. If the future spot rate is likely to rise to £ 0.4700, what would happen to the UK interest rate ? 7

3. (a) Discuss the use of fundamental and technical technique for forecasting exchange rates. What are the limitations of these using forecasting techniques to predict exchange rates ? 7
- (b) Your affiliate is located in developing country that has a soft currency with no forward exchange market and where there is no organised money market. Assume additionally that parallel loans and credit swap opportunities are not available. Suggest an optimum strategy to minimise transaction exposure. 7

OR

- (c) Among the three types of exposure : translation, transaction and economic which is the easiest to manage ? Which is most difficult ? Explain your reasoning. 7
- (d) Select three dissimilar companies, such as a manufacturing (e.g. consumer products) company, a service (e.g. airline) company and a trading (e.g. oil) company. Discuss how the operating and organisational characteristics of each has affected the exposure management function. 7

SECTION—C

4. (a) What role do development banks play in economic growth ? Enumerate some of the development banks and their functions. 7
- (b) Explain in brief the features of international bond market. 7

OR

- (c) Explain the functions and growth of Euro-currency markets. 7
- (d) What do you mean by Euro-bond ? Indicate the reasons for development of Euro-bond markets. 7

SECTION—D

5. An Indian exporting firm, Rohit and Bros, would like to cover itself against a likely depreciation of pound sterling. The following data is given :
 Receivables of Rohit and Bros : £ 5,00,000
 Spot rate : Rs. 56.00/£
 Payment date : 3-months
 3-months interest rate :
 India : 12 percent per annum
 UK : 5 percent per annum
 What should the exporter do ? 14