

- (b) San Miguel, the Filipino brewer company has arranged a E 250 million, five – year, euro dominated euro currency loan with a syndicate of banks led by Credit Suisse and Devtsche Bank. With an up – front syndication fee of 2.0%. The interest rate is set at LIBOR + 1.75%, with LIBOR reset every six months, The initial LIBOR rate for euros is 5.5%.
Calculate :

- (1) The net proceeds.
- (2) The first semi annual debt service payment.
- (3) The effect annual interest rate for the first six months. 7

OR

- (c) Distinguish between Euro bond and a foreign bond. 7
- (d) What is the market price of a 114 – day Euro note issue with a face value of \$ 10,000 with a yield of 7.45%. 7

SECTION C

5. Mr. Lamb, the president of East India Company in Britain and Mr. Reto, chief of IMF have been

AR – 1246

Fourth Semester M. B. A. Examination

FOREIGN EXCHANGE MARKET

Paper – MBA / 4105 / CGF

P. Pages : 6

Time : Three Hours]

[Max. Marks : 70

- Note :** (1) Attempt all questions.
(2) Figures to right indicate marks.

SECTION A

1. (a) Define the principle of 'Conditionality' as applied by the I. M. F. ? Is the I. M. F. still applying this principle under the current international system ? Why do a large number of countries find it difficult to accept this principle for their developement ? 14

OR

- (b) Discuss the Broad features of a fixed parity system of exchange rate initiated by the I. M. F. during 1940's ? What were the factors responsible for its collapse by the early 1970. 14

SECTION B

2. (a) What are the factors that influence exchange rate in a forex market ? 7
- (b) A Customer wants to sell one month forward with the base rate at 50.52 and one month premium on dollar is 28 paise. Calculate the forward buying and selling, the margin is 0.05%. 7

OR

- (c) What are the features of Foreign Exchange Market ? 7
- (d) On 3rd July 2015 Interbank rates were (against \$) Rs. 47.6500/47.6600. You have been authorized to retain margin of 0.8% for a transaction involving inward remittance of USD 100,000 value spot. In rupee terms, how much will your customer get and what is the effective exchange rate ? 7
3. (a) What is the difference between Futures and Forward Contracts. 7
- (b) USD / EUR = 1.6450
USD / EUR = 1.6580 (forward 6 month)

6 month eurodollar interest rate = 4.50 pa
6 month euro interest rate = 6.50 pa.

An importer needs dollar 1 million right now to settle an import bill, what can he do ?

Note : The Domestic market is Europe and value of dollars is being expressed in terms of Euros. 7

OR

- (c) When should a company buy a call option for hedging ? When should a company buy a put option ? 7
- (d) S. N. Kapoor, a speculator, enters into a future contract for March delivery of 125,000 German Marks on February 1st. The futures exchange rate of the German Mark for March delivery is \$ 0.5939 per Mark. The margin requirement is 2%. His expectation of the spot rate for Marks on March 15th is \$ 0.6117. If his expectation proves correct, what would be his rate of return on investment" ? 7
4. (a) What is LIBOR ? What determines the spread over LIBOR charged borrowers for Euro Currency Credit and Loans. 7

working together since their early career. As a friend, Reto had suggested Lamb to set up operations in East Timor. East Timor is the latest new member of IMF. It was separated from Indonesia and became an independent country in 2003. Being a less developed country it has many challenges — Poverty, unemployment, very few private enterprises, poor health standards, low level of education, etc.

Mr. Lamb started exploring the idea of setting up a unit in East Timor. However, his bankers are not too keen to fund the project as they perceive a very high risk there. MR. Lamb himself is concerned about political risk in the project. He discussed the matter with AIG insurance and also with Lombard. But both the companies were apprehensive of political risk in East Timor. East India Company as such has no presence in any developing country except India where it has an outlet. The East India company has been regularly borrowing and lending in European markets. Presently the interest rates in Europe is 2.15% per annum and in Britain it is 4.9% per annum. Chase Bank has indicated spot rate at 0.6883 pounds per Euro. The 3 – month forward rate is 0.6879.

He is expecting \$ 1 million payment in the next 180 days and \$ 2 million more in 270 days. Mr. Lamb is confident about receiving the first lot of \$ 1 million on time, while the chances of

receiving the next \$ 2 million is 50 – 50. Mr. Lamb started analysing his income statement in Britain and also in India. The statements for India and UK are given below :—

	India (₹)	UK (£)
Sales	27,200	500
Cost of goods sold and Operating Expenses	13,600	350
PAT	13,600	150
Interest	6,800	232
Print Tax	6,800	– 82

The Rupee pound rate is volatile and fluctuates between ₹ 80 and ₹ 85 per pound, which of the multilateral institutions can help out East Timor with regard to poverty alleviation, political risk cover and project funding ?

Analyse the above case study and answer the questions given below :—

- (1) Which hedging tools do you suggest for each of the expected dollar payments ? 7
- (2) State the type of exposure. 7

