T.Y. BAF Sem-V (1) 28/11/18

[Time: 2.30 Hours] [Marks:75]

N.B: 1. All questions are compulsory carrying 15 marks each.

Q1) (a) Choose the correct alternatives (Any Eight) (8m)

1. Using future contracts to transfer price risk is called _______________

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

2 . A _____________ is our account of our money, held by you.

a) Nostro b) vostro c) loro d) none of the above

3. A contact that requires the investor to buy securities on future date is called a ____________

a) Short contract b) Long contact c) Hedge d) Cross

4. purchase of a share in one market and simultaneous sale in different market to benefit from price differentials is known a ___________

a) Mortgage b) Arbitrage c) Hedging d) Speculation

5 . When the value of the British pound changes from $1.55 to $ 1.75, then _____________

a) The pound has appreciated and the dollar has appreciated.

b) The pound has depreciated and the dollar has appreciated.

c) The pound has depreciated and the dollar has depreciated.

d) The pound has appreciated and the dollar has depreciated

6. A simultaneous purchase and sale of foreign exchange for two different dates is called _______

a) Currency devalue b) Currency swap c) currency valuation d) currency exchange

7. __________ quote also known as reference rate.

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

8. In Holgate principle, if Bid > Ask, Swap points for forward rate are to be :-

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

9. ______________ is where you can buy and sell a currency, at a fixed future date for a pre – determined rate.

a) Forward market b) domestic market c)currency market d) options market

10. The current system of international finance is a _________

a) Gold standard b) fixed exchange rate system c) Floating exchange rate system d) Managed float exchange rate system

Q1) (B) Answer whether the below statements are True or False (Any Seven) (7m)

1. According to Prof. Fisher, nominal rate of interest depends on inflation rate.
2. Micro factors existing within a firm lead to country risk.
3. Premium on base currency is always deducted from the spot rate.
4. Depreciation of domestic currency means a fall in the price of domestic currency in term of a foreign currency.
5. The term 'Spot market' refers to derivative where payments are made in cash.
6. The agreed notional amount in a swap is exchange at the start of the swap and at the maturity of the swap.
7. Tariffs and quotas reduce the demand for foreign exchange
8. Call premium = Time value + Intrinsic Value
9. Forward contacts are bilateral Contact
10. Reduce the risk is known as hedge

Q2) (a)Calculate Inverse Quotes for the following:- (8m)

GBP / NZD 5.7935 – 5.8085
USD / INR 54.0325 – 54.0375
EUR / AUD 1.2208 – 1.2298
EUR / SEK 8.3590 – 8.3740

Q2) (b) USD / SGD 1.4305 – 1.4395 (7m)
GBP / SGD 2.6865 – 2.6875
Calculate GBP / USD quotation and establish relationship between the three quotations in terms of percentage spread?

(OR)

Q2) (c) Explain 'Bull Call Spread' along with an example and a graph (8m)
Q2) (d) Distinguish between direct rates and indirect rates (7m)

Q3) (a) Explain Foreign Exchange Rates and its types? (8m)
Q3) (b) What is the difference between arbitrage and Speculation? (7m)

(OR)

Q3) (c) Spot USD / INR 45.3825 – 45.3875 (8M)
3months forward 100 INR / USD 2.2002 – 2.2005
Calculate 3months AFM and interpret the result.
If USD interest rate = 2.35% p.a
Calculate INR interest Rate.

Q3) (d) A bank in New York quotes: 1USD = CAD 1.0398 – 1.0408 (7M)
i) Is this an American or European quote in USA European?
ii) Find Mid-Rate, Spread & Spread %
iii) Derive Inverse Quotation (CAD/USD)

Q4) (a) What is Foreign Exchange Market? Who are the Participants of Foreign Exchange Market? (8m)

Q4) (b) Describe the characteristic of Foreign Exchange Market. (7m)

OR

Q4) (c)The following data pertains to Bank 'A' on 17th April 2016 (8m)

Spot USD/INR	53.8480 - 53.8490
Spot / April	690 - 790
Spot / May	1610 - 1680
Spot / June	2750 - 2850

Calculate the Quotation of Bank 'A' For:

I. 2 month 10 days forward maturity

Q4) (d) Given 120 days forward EUR / SEK 8.4575 (7m)

120 days AFM = premium 0.25 % p. a.

Calculate Spot EUR/SEK rate

Q5) (a) Explain the Techniques of managing foreign exchange risk (8m)

Q5) (b) What is purchasing power parity theory? Explain its drawbacks. (7m)

OR

Q5) © Short Notes (Any three) (15m)

1. Hedging
2. Risk and Exposure
3. Derivatives
4. NOSTRO account
5. OTC Market
