S.Y.BFM - SEM IV - Reg / A.T-K.T. - Mar'20

Subject: Foundation Course – IV (Foreign Exchange Markets)

Time: 2 hours and 30 minutes Marks: 75

Note: 1. Attempt all questions

2. Figures to the right indicate full marks

1. Q.1.A: Fill in the blanks: (any 8) (8)

1. The term ____________________________ (spot/forward) exchange requires the immediate delivery of currency.
2. The ______________________ (Capital/Current) account is the balance of trade between two countries.
3. A currency ________________ (basket/rate) contains number of currencies with different weight.
4. The process of arbitrage will __________________(normalize/collapse) the price.
5. Roll over free is known as the______________ (Spot/Swap) fee.
6. Standardized forward contracts are known as _________________ (Futures/Options)
7. The _______________ (BWS/Gold standard) was the first universally implemented system for valuing currency.
8. The IMF finalized Fixed Exchange rate system which is known as _______________ (BWS/Fixed Exchange rate)
9. FEMA was introduced in __________ (1991/1999)
10. Currency_______________ (exchange/hedging) refers to the technique of protecting against the potential losses.

Q.1.B. State whether the following statements are True or False: (Any 7) (7)

1. SWIFT is solely a carrier of messages.
2. There is a physical place where the foreign exchange buyers and sellers meet together.
3. IMF was given the task of implementing and monitoring BWS.
4. The system of flexible exchange rates does not allow exchange control and promotes free trade.
5. The bid rate denotes the number of units of a currency a bank is willing to pay when it buys another currency.
6. A positive BOP shows that the country is importing more than exporting.
7. PPP refers theory is based on the 'law of one price'.
8. Normally the BOP covers a period of 5 years.
9. A pip is the smallest unit by a currency quotations can change.
10. A buyer and seller agree on an exchange rate for any date in the future.

Q.2. A. State the features of Bretton Woods System. (8)

B. What are the pros and cons of currency convertibility? (7)

OR

C. Differentiate between Fixed Exchange rate and Floating Exchange Rate (8)

D. Enlist advantages and disadvantages of foreign exchange future contracts. (7)

Q.3. A. Explain the theory of Purchasing Power Parity in brief. (8)

B. Bankers quotes are as followed:

In Euroland: GBPEUR 1.2700/1.2750

In Australia: GBP AUD 1.8100/1.8150

What is EURAUD expected rate? (7)

OR

C. Calculate the inverse quote, Spread, Spread% and Mid-rate for USDINR:

EURUSD 1.2650/1.2850

EURINR 79.8500/79.8850

Also, mention the country of direct quote for USDINR (15)

Q.4. A. Explain the current exchange rate system. (8)

B. What are the different types of Foreign Exchange Risks? (7)

OR

C. Following quotes are provided by 3 traders:

Trader A: 1.6818/28 USD per GBP

B: 6.0025/29 SEK per USD

C: 10.0800/06 per GBP

Establish if opportunity for arbitrage exists and if yes, calculate the profit on capital USD 1 million. (8)

D. Calculate the outright forward quotes: (7)

Explain whether it is at a premium or discount.
Spot 14.1110/220
1 month forward 100/200
2 month forward 300/450
3 month forward 950/900

Q.5. A. Explain the internal hedging methods for hedging Foreign Exchange Risk. (8)

B. Explain in details Foreign Exchange Management Act. (7)

OR

C. Write short notes – Any 3 (15)

1. Interest Rate Parity
2. NOSTRO Account
3. Traders and Speculators
4. Country Risk Analysis
5. Geographical Arbitrage.