6. How to cancel a forward contract?

2. What does the term 'forward exchange rate' mean?

4. Explain the different types of options in detail.

3. Discuss the determinants of forward exchange rates.

1. Explain spot and forward markets in detail.

Answer any five questions.

PART A — (5 x 6 = 30 marks)

Maximum : 100 marks

Time : Three hours

DERIVATIVES
FOREX MANAGEMENT AND CURRENCY
International Business
Fourth Semester
M.B.A. DEGREE EXAMINATION, JUNE 2014

MBIB 4005

Announcement?

The sterling deposit rate were 1.4% per annum. What should you invest if
the sterling rate were to remain as above, what forward rate would yield
the same return as the spot exchange rate remain as above, which forward rate would yield
the same return as the spot exchange rate remain as above, which forward rate would yield
the same return as the spot exchange rate remain as above.

Assuming that the US rate is 3% per annum

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What should your company invest for

Pound

The three months forward rate is $1.78/

The spot exchange rate is $1.80/

The US deposit rate is 8% per annum

* Following information:

Your company has to make a US$ 2 million

exchange rate risk.

After the company will be exposed to
is the company will be exposed to
it stands to gain in case of appreciation
the company doesn't need to do anything as

In case of depreciation of pound, the

(6)
7. What are derivatives? Explain its types.

8. What are currency options? Explain the purposes for which they are used.

PART B — (5 x 10 = 50 marks)
Answer any FIVE questions.

9. Who are the participants of foreign exchange market? What are the functions of a foreign exchange market?

10. What is gold standard? Explain the advantages and disadvantages of gold standard.

11. State the objectives of exchange control. Give examples for typical currency control measures.

12. Briefly discuss the three kinds of foreign exchange exposures.

13. What is a future contract? Explain its characteristics.

14. What is a forward contract? Explain its features.

15. Explain briefly the mechanisms of futures trading.

16. Define the term SWAP. What are currency swaps?

PART C — (1 x 20 = 20 marks)
Compulsory

17. Case study:
(a) An Indian Company, ABC Ltd. imports machinery worth £2.0 million and is to make the payment after 6 months. The current rates are
Spot rate Rs.66.96 / pound
6 month forward rate Rs.67.50 / pound
(i) What should ABC Ltd do if they expect that in six months time the pound will settle at Rs.67.15 / pound?
(ii) What are the options available to the company in case of an expected appreciation/depreciation in the rupee?

(b) Spot rate £1 = Rs.66.96
6 month forward rate £1 = Rs.67.50
Expected spot rate after 6 months £1 = Rs.67.15
(i) Since ABC Ltd has a liability in foreign currency pound, they are importing a machinery worth £2.0 million. Both the market men and the company expect the pound to appreciate. Company should estimate the relative cost of hedging and if it is not too high, the company should hedge its payments.