Roll No. .... **Total Pages : 03**

MBA/D-21 27086

FOREIGN EXCHANGE MANAGEMENT

IB-302

Time : Three Hours] [Maximum Marks : 70

Note : Question No. **1** consisting of five parts of 4 marks each is compulsory. Attempt any *Five* questions out of the remaining eight questions carrying 10 marks each.

1. Answer/Explain the following in up to two page length each :

(a) What do you know about foreign exchange markets ?

(b) What is use of Arbitrage in foreign exchange market ?

(c) What is the role of hedging in Currency Market ?

(d) What factors affect Option Pricing ?

(e) Differentiate Forward and Futures currency markets.

2. What are the main functions of foreign exchange market ? Explain factors affecting foreign exchange rate.

3. How do spot and forward markets differ from each other ? What is the impact of increased volatility of a currency on its bid-ask spread ?

4. What types of rates are quoted in foreign exchange markets ? Explain with example the following aspects of quoting and settlements in foreign exchange market :

(a) Two-way Quote

(b) Spread

(c) Cross rate

(d) Tom rate.

Elaborate who are participants in Futures Trade of currency markets. What types of orders are placed in this market and how these future trades are executed ?

5. What are basic types of currency options ? Explain with illustrations the Pay-off from these options. How can we speculate with currency options ?

6. How are assets and liabilities translated under the current rate method ? Give also the advantages and disadvantages of this method of managing translation exposure.

7. What is economic exposure ? How do you measure it and manage it ?

8. Elaborate the two pure approaches to forecasting foreign exchange rates :

(i) The fundamental approach

(ii) The technical approach.

Give limitations and suitability of these approaches.

9. (a) What is the need of foreign exchange exposure management ? Describe in very brief types of foreign exchange exposures.

(b) A U.S. company has a single, wholly owned affiliate in Japan. This company has exposed assets of Y500 million and exposed liabilities of Y800 million. The exchange rate appreciates from Y150 per dollar to Y100 per dollar.

(i) What is the amount of net exposure ?

(ii) What is the amount of the transaction gain or loss ?