

**MBIB 4005**

M.B.A. DEGREE EXAMINATION,  
DECEMBER 2014/JANUARY 2015.

Fourth Semester

International Business

**FOREX MANAGEMENT AND CURRENCY  
DERIVATIVES**

(2012-2013 Batch onwards)

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions out of the following.

1. What are the characteristics of foreign exchange market?
2. Briefly explain the spot and forward markets.
3. What are the determinants of exchange rates?
4. Explain different types of foreign exchange exposure.
5. Identify the factors that determine forward margins.



6. Distinguish between ready and forward exchange rates.
7. What are the merits of gold standard monetary system?
8. Explain the major features of currency futures and currency options.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions out of the following.

9. What is the role of RBI in foreign exchange market?
10. What are cross rates and why are they popular in foreign exchange market?
11. What are fixed and floating exchange rate systems? Which one will contribute to financial stability?
12. Explain how foreign exchange swaps work. What purposes do they serve?
13. Write a note on execution, cancellation and extension of forward contracts.
14. How does currency derivatives trading work?

15. What is the difference between speculation and arbitrage? Discuss the nature and operation of currency arbitrage.

16. Explain how interest rate options work with caps, collars and floors.

PART C — (1 × 20 = 20 marks)

(Compulsory)

17. Case Study:

Following are the spot exchange rates quoted at three different forex markets.

USD/INR – 48.30 in Mumbai

GBP/INR – 77.52 in London

GBP/USD – 1.6231 in New York

The arbitrager has USD 1,00,00,000

Assuming that there are no transaction costs, explain whether there is a possibility of arbitrage gain from the quoted spot exchange rates.