(ii) In case of depreciation of pound. the company doesn't need to do anything as it stands to gain. In case of appreciation of pound it should hedge its payments as the company will be exposed to exchange rate risk.

(c) Your company has to make a US$ 2 million payment in three months time. The dollars are available now. You decide to invest them for three months and you are given the following information :

- The US deposit rate is 8% per annum
- The sterling deposit rate is 10% per annum
- The spot exchange rate is $1.8 /pound
- The three month forward rate is $1.78/ pound

(i) Where should your company invest for better returns?

(ii) Assuming that the interest rates and the spot exchange rate remain as above, what forward rate would yield an equilibrium situation?

(iii) Assuming that the US interest rate and the spot and forward rates remain as stated above, where would you invest if the sterling deposit rate were 14% per annum?

MBIB 4005

M.B.A. DEGREE EXAMINATION, JUNE 2014.

Fourth Semester

International Business

FOREX MANAGEMENT AND CURRENCY DERIVATIVES

(2012–13 Batch onwards)

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. Explain spot and forward markets in detail.

2. Discuss the determinants of foreign exchange rate.

3. Discuss the various techniques used for management of translation and economic exposure.

4. Explain the different types of options in detail.

5. What does the term foreign exchange rate, mean? Briefly discuss the factors affecting the foreign exchange rate.

6. How to cancel a forward contract?

7. What are derivatives? Explain its types."

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

PART B — (5 × 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 × 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.