VPM's
DR VN BRIMS, Thane
Programme: MMS (2013-15)
Third Semester Examination October/November 2014

MMS-III Subject Finance	International Finance (IF 03)		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	3	Date	03-11-2014

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

Read the following caselet and answer the questions given below it:

The PPP Theory establishes the forward premiums of the market for the respective currency. having different .Inflation at different economies does not justify the same exchange rates in forwards also. For example the Government of India faces the Inflation @ 7.25%. Currently if the Local currency exchanged @ Rs. 62.6250 we can predict the forward exchange rates based upon purchasing power parity differences.

The exchange rates more not independently in the markets. Various factors contribute towards the exchange rates of currencies of the countries.

India's economic position with the rest of the world improved from March 2014 but the trend of imports of Gold Continued on high tone. The great concern towards Current A/c deficit (CAD) was due to the Oil, Lubricants imports along with Gold and Machinery. CAD was @ 4% of GDP which went upto 4.5% also during the year 2012-2013.

Capital Surplus not given much weightage by the rating agencies since they look seriously at overall BOP and current A/C deficit. The Fiscal deficit of India (around 5% of GDP) adds fuel to the fire. The GOI Rad been taking steps for reduction of subsidies and taking steps for Fiscal deficit reduction. The unlimited printing of currencies by USA and European union shall affect the oil prices and may give strain for Indian rupee. CAD was USD 46.4 Billion which went upto overall 55 Billion mispite of remittances an expert added. Forex reserves were to the tune of 300 Billion USD. Country's UDP touching around 2000 Billion USD in the recent past. The FDI and FPI flows had been satisfactory.

Questions:

1) Find one year, 6 month, 3 month and 110 days forward USD / INR rates as per PPP Theory. (10 marks)
2) Explain BOP - W.r.t. Current & Capital A/c (5 marks)
3) How to improve CAD, BOP deficit (5 marks)

Attempt Any FOUR from the Remaining SIX Questions

Q2) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

(a) What are the factors affecting the Foreign Exchange rates.

(b) Find Arbitrage if any.

Bank A	USD / INR	61.9850 / 0150
Bank B	USD / INR	61.9950 / 9650
Bank C	USD / INR	61.9675 / 9725
Bank D	INR 100 / USD	1.6131 / 1.6128

(c) (i) Find Cross Rates

USD / CHF	1.5892 / 02
USD / FRF	2.9875 / 0075

(ii) Find Cross Rates

CHF / INR	70.7850 / 7950
USD / INR	61.6150 / 61.6250

Q3) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

(a) Explain the current Account Deficit in detail.

(b) Find Interest Accrued but not yet credited as on DATE.

Security	Int. Rate	Amount	Int. Paid on last day of
2020	6.25%	1.11 Cr	April / Oct
2019	6.85%	2.02 Cr	May / Nov
2018	7.15%	3.33 Cr	June / Dec
2017	7.45%	4.04 Cr	July / Jan

(c) Find mid rate, % spread and indirect rates of the following :

a)	GBP / INR	989850 / 0050
b)	GBP / SGD	3.489 / 01
c)	Euro / USD	1.4889 / 09
d)	USD / FRF	4.9650 / 0050

Q4) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

(a) Explain Vehicle Currency concept.

(b) Find the forward rates for 25th Day, 98th Day and 136th Day for following information. USD / INR Spot rate 61.9650 / 0050. USD interest rate 2.75% p.a. INR interest rate 6.75% p.a.

(c) Find the Forwards for the following details. GBP / USD Spot 1.8050 / 60 1 months 200/180, 2 month 175 / 155, 3 months 150 / 130 4 months 125 / 105.
Find 39th Day forwards too

Q5) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

(a) What is Arbitrage ? How is it different from speculation.

(b) Find 6 month forward GBP / USD by AFM method.
Spot GBP / USD 12.9325, 6 month AFM = 3.25%

(c) BOA Mumbai borrows from own office New york USD 2 Million @ 2.25% for one day and it equally in two parts lend it to BOB and BOI Mumbai @ 5.75% and 6% respectively (USD / INR on both DAYS 61.6200). For one day if the Call money is lent and overseas interest paid what profit / loss made by BOA Mumbai.

Q6) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

(a) Find covered Interest Parity Arbitrage if any.

Spot Euro / SGD	1.7148
73 days forward	1.7123
Euro interest Rate	1.50% p.a.
SUD interest Rate	0.50% p.a.

(b) Take the Borrowing decision for the following details of INR 6 Million for a temporary period of 3 months. INR interest Rate 5% p.a.

Currency	Spot Rate	Find Rate	Interest Rate
USD	44.7535	45.0600	2.25% p.a.
GBP	78.7275	79.0200	3.50% p.a.
CHF	38.3525	38.7000	1.50% p.a.

(c) Distinguish between Forwards and Futures Contract.

Q7) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

a) An exporter approaches the bank for covering USD 9,58,783 when the following details given. USD/INR spot 61.9850 / 0250. 1 month fwd. 700 / 500 2 month fwd 475 / 275. The exporter wants to cover 60^{th} Day Forward USD. RBI permits 0.20% Commission for Bank. Bank expenses total Rs. 1000 The Merchant takes the post shipment finance facility and immediately takes the funds. Int. Rate going in the market @ 7.5% p.a. what amount to be credited to customer ccount and show interest amount to be paid by the exporter separately.

(b) A trader takes a Call and Put both by paying the premium of both. Details given below. Find the cash flow on the date of maturity (2 months) show the answers separately.

	No. of Shares	**Strike Price for 2 months**	**Premium Paid**	**Probable Closing Price on date of Maturity**
Strike CALL Taken	100	Rs. 120/-	Rs. 10	(i) 150 (ii) 130 (iii) 125
Strike CALL Taken	100	Rs. 90/-	Rs. 20	(i) 75 (ii) 65 (iii) 85

(c) Explain Transaction risk, Translation Risk and Economic Risk