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Your Roll No.....

Sr. No. of Question Paper : 6835
Unique Paper Code : 61017924
Name of the Paper : International Finance
Name of the Course : Bachelor of Management Studies (BMS),
2023 LOCF
Semester : VI
Duration : 3 Hours
Maximum Marks : 75



Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt **any five** questions.
3. Please attempt **all the parts** of question together.

Q.1.I. The following exchange rate and interest rates are observed in the market:

USD/EUR Spot: 1.45. The annual Interest rate in New York is 4.5% and in Paris is 6.5%. If Uncovered Interest Parity holds true, what would be the 120 days forecasted EUR/USD rates from now? (5marks)

II. ZYLO Corp. has receivable of BP 1,00,000 in 180 days from now. Assume that there is a Put Option available with an exercise price of \$1.75, and option premium of \$0.05 per unit. ZYLO Corp. forecasts the future spot rate in 180 days as follow with probabilities. (5marks)

Exchange rate	\$1.65	\$1.70	\$1.80
Probability	35%	25%	40%

How much U.S. dollars the firm will receive if it goes for option hedge?

III. What are the important factors which underlines the country risk? (5marks)

P.T.O.

- Q.2.I. XYZ Corp. will receive BP 2,00,000 in 180 days. The other information is given as:
 Spot rate of BP as of today: \$1.65
 180 days forward rate of BP as of today: \$1.72
 Interest rates are given as:
 180 days deposit rates: UK= 4.5%, U.S.=4.5%
 180 days borrowing rates: UK=5.0%, U.S.5.0%
 How much U.S. dollars will the firm have if it goes for money market hedge?
 (5marks)
- II. Calculate gain/loss over 10 million CHF through three point (triangular) arbitrage.
 (5marks)
 CHF/INR 1.35-1.65
 CHF/GBP 1.25-1.45
 INR/GBP 1.85-1.95
- III. Explain the Mixed exchange rate systems with merits and demerits. (5marks).
- Q.3.I. In a market the following rates are available. (5marks)
 USD/CAD spot: 1.35/1.65
 6 month swap points: 15/35
 What are the 6 month forward rates? Also calculate the 6 month annualized discount/premium.
- II. Zylo Chemical receives quotes of \$ 0.65-75 for the Yen and \$0.75-85 for the Taiwan dollar (T\$). (5 marks)
 a. How many U.S. dollars will Zylo Chemical receive from the sale of ¥ 50 million?
 b. What is the U.S. dollar cost to Zylo Chemical of buying Yen 1 billion?
 c. How many NT\$ will Zylo Chemical receive for US \$ 500,000?
 d. How many yen will Zylo Chemical receive for T\$ 200 million?
- III. What is Monetary/Non monetary method of translation? (5marks)
- Q.4. Explain any five. (5x3=15 marks)
 (i) Euro bonds
 (ii) International Fisher effect
 (iii) Offshore Banking
 (iv) Classical Gold Standard
 (v) Letter of Credit
 (vi) Hedging Vs Speculation
- Q.5.I. The Brazilian Real is quoted at BR1.52-1.86/US\$ and the Thai Bhat is quoted at TB35.25-40.42/US\$ What is the indirect quote for the BR in Bangkok? (5marks)

- II. You have the following information from the money market and foreign exchange markets of USA and UK. (5marks)

	USA	UK
Spot exchange rate	GBP 0.75/USD	
Interest rate (annualized)	4.5%	5.5%
Expected inflation rate	Unknown	3.75%

Both the markets are very efficient and the parity conditions hold true (Both PPP and IRP).

- Estimate inflation in USA next year
 - Estimate one year GBP/USD forward exchange rate assuming PPP holds.
- III. Explain the Relative Advantage theory of foreign trade. (5marks)

Q.6.I. The following exchange rates and one year interest rates exist.

	Bid rate	Ask rate
Euro spot rate	\$1.25	\$1.35
One year Euro forward rate	\$1.55	\$1.65
	Deposit rate	loan rate
Interest rate on US\$	6.0% p.a.	9.0% p.a.
Interest rate on euro	6.5% p.a.	9.5% p.a.

You have \$1,00,000 to invest for one year. Would you benefit from engaging in covered interest arbitrage? (5marks)

- II. The payables and receivables of four foreign subsidiaries of XYZ bank are given as (in US\$, million):

Dutch subsidiary payables: 15 to Swedish, 14 to Belgian, 18 to French

Swedish subsidiary payables: 12 to Dutch, 16 to French, 13 to Belgian

Belgian subsidiary payables: 14 to Swedish, 19 to French, 12 to Dutch

French subsidiary payables: 18 to Dutch, 12 to Belgian

How much will be the total payments and receipts if they follow multilateral netting process? (5marks)

- III. What are Pre and Post shipment lines of credit? (5marks)