

Please check whether you have got the right question paper.

- N.B:
1. Q.1 is compulsory and carries 20 Marks.
 2. Attempt any four questions from Q.2, Q.3, Q.4, Q.5, Q.6 and Q.7. Each of these questions carry 10 Marks.
 3. Figures to the right indicate full marks.

Q.1 (A) Solve the given Case Study:

(20)

In 2007, India experienced rapid appreciation of its currency against the US dollar. The reasons for the appreciation of the rupee were a generally weak dollar in international currency markets and sharp increase in dollar inflows into the country, partly due to India's increasing attractiveness to foreign investors. Although India had been seeing a steady rise in dollar inflows into the country for quite some time, on earlier occasions, the Reserve Bank of India (RBI) had intervened in the foreign currency market and purchased excess dollars so as to prevent any appreciation in the value of the rupee. Now, the RBI decided not to intervene, mainly to control inflation which was around 6 percent in early 2007.

The case discusses the reasons for the appreciation of the rupee and its possible impact on the Indian economy. It also discusses the measures taken by the RBI and the government to control rupee appreciation and to try offset the negative impacts of a strong currency on the economy. The case ends with some views on the future movement of the rupee.

Answer the following Questions based on above case study.

- 1) Examine the reasons for the rapid appreciation of rupee in 2006-07.
- 2) Analyze the impact of rupee appreciation on the economy.
- 3) Critically analyze the role of the central bank in the foreign exchange market.
- 4) Assess the possible future movement of the rupee vis-à-vis the US dollar.

Q.2 Any two from (a) or (b) or (c): (10)

- (a) What is Balance of Trade? Explain its implications on Exchange Rate?
- (b) Write a short note on IMF.
- (c) What is Globalization? Explain its Advantages and Disadvantages.

Q.3 Any two from (a) or (b) or (c): (10)

- (a) What were the main objectives of the Bretton Woods system?
- (b) Explain the Interest Rate Parity in brief.
- (c) Write a short note on Forward Contracts.

Q.4 Any two from (a) or (b) or (c): (10)

- (a) Explain the term Euro deposits.
- (b) Explain FPI with its advantages and disadvantages.
- (c) Distinguish between American Depository Receipts and Global Depository Receipts.

Q.5 Any two from (a) or (b) or (c): (10)

- (a) What are the risks involved in Foreign Bonds. Explain each type of risk involved in it.
- (b) Distinguish between Future and Forward Contract.

(c) Explain the Arbitrage in detail.

Q.6 Any two from (a) or (b) or (c): (10)

(a) Explain how Hedging with Currency Option works.

(b) Explain various types of Currency Swaps.

(c) Explain different types of Interest Rate Swaps.

Q.7 Any two from (a) or (b) or (c): (10)

(a) Assume that a project requires an outlay of Rs.50,000 and yields annual cash inflow of Rs. 12,500 for 7 years. The payback period for the project is:

(b) Explain the 6 types of Risks faced by businesses while doing international trade and how they manage them.

(c) Define Risk Management. Explain the Importance of Risk Management.