

INTERNATIONAL FINANCE**[Time: 3.00 Hrs.]****[Marks: 80]****N.B. :** (1) Q. no. 1 is **compulsory**.(2) Attempt any **3** questions from question no. **2 to 5**, each carrying **20** marks.

(3) Figures to the right indicate full marks.

(4) Working notes should form the part of your answer.

(5) Use of **simple calculator** is **allowed**.**Q1.****(a) Select appropriate answers from alternatives given below and rewrite the sentences.****10**

(i) _____ refers to the system prevailing in world foreign exchange markets through which global trade and capital movement are financed and exchange rates are determined.

- a. International business b. International trade c. International monetary system
d. International finance

(ii) _____ made valuation against Gold on a fixed basis available.

- a. Gold Standard b. Flexible exchange rate system c. Fixed exchange rate system
d. Bretton Woods system

(iii) _____ agreement was signed in 1971 that updated some of the rules of the Bretton woods system.

- a. Los Angeles b. Washington c. India and China d. Smithsonian

(iv) A _____ rate is a rate of the Central Bank that sets and maintains the official rate of exchange.

- a. USD b. INR c. EUROS d. pegged

(v). Under _____ system, the exchange rate of two currencies is determined by demand and supply of foreign currencies as compared to home currency.

- a. Fixed exchange rate b. Independent float c. Flexible exchange rate d. Gold standard

(vi). 'No separate legal tender' is referred to as _____.

- a. polarization b. vaccination c. dollarization d. constructivism

(vii). _____ is a market across border.

- a. Unregulated market b. Regulated market c. Commodities market d. Derivatives market

(viii). Most deposits in the Eurocurrency market are _____ deposits at fixed interest rates.

- a. flexible b. fixed c. savings d. current

(ix). _____ is the rate of change in the price level of goods and services in the economy.

- a. Inflation b. Deflation c. Recession d. Concession

(x). _____ of trade are the ratio of export prices to import prices of a country.

- a. BoP b. Terms c. Currency rate d. Exchange rate

Q1. b. Select whether the following terms are true or false:

10

- (i). Terms of trade are favourable when export prices are higher than import prices.
- (ii). PPP theory was propounded by Alfred Marshall.
- (iii). The formula to determine absolute purchasing parity is $R = \frac{P_b \times Q_0}{P_a \times Q_0}$
- (iv). Interest rate theory is used to find out target inflation.
- (v). Covered interest rate theory does not let arbitrageurs earn profit.
- (vi). Money changers do not own license.
- (vii). Call money operations involve management of short term financial resources so that the bank meets its obligations as per CRR stipulated by the RBI at a given time.
- (viii). FEDAI was set up in 1958.
- (ix). Spot exchange rate requires spot delivery.
- (x). Hedging is simultaneous buying and selling of foreign currencies.

Q2. a. Spot USD/INR is 46.8000/46.9000.

10

1 month FP = 50/80

3 months FP = 100/200

6 months FP = 200/300

Find forward rates for 1 month 15 days and also for 3 months 25 days.

Q2. b. Identify the names of respective countries where the following is a direct quote. For each find indirect quote in that country.

5

i. Rs. 78.32 = GBP 1

ii. USD 1 = Rs. 85.10

iii. Re. 1 = Sw. Kr. 0.3025

iv. Rs. 125.80 = Omani Riyal 1

v. GBP 1 = USD 0.578

Q2. c. Quotation for pound sterling in GBP INR 68.87/70.24.

Calculate spread and percentage spread.

5

Q3. a. The following quote is given in New York.

EUR 1 = USD 1.2596/1.2620

Is it a direct or indirect quote?

Find the flat rate, spread, percentage spread. Calculate inverse quote.

10

Q3. b. Suppose two traders located at Washington quote the following:

5

Trader A Trader B

\$0.60/SF \$0.60/SFr

\$0.51/DM \$0.52/DM

State whether arbitrage exists. Calculate arbitrage gain.

Q3. c. The following quote is given. USD 1 = CAD1.1630/50.

5

Identify the country in which this is a direct quote.

Find the mid-rate, spread and spread percentage. Calculate the inverse quote.

Q4. a. If 90 day Yen/USD forward exchange rate is 109.50 and the spot rate is Yen/USD is 109.38. The dollar has a premium of 0.12 yen per dollar. Determine annualized rate.

10

Q4. b. Exchange rate for USD in India is

5

Spot: 45.0020

6 month forward 45.9010

Interest rate (annual) in the money market is as follows:

USA: 7%

India: 12%

Work out the arbitrage opportunity.

Q4. c. Write a note on direct and indirect quotes.

5

Q5. a. Describe the merits and demerits of gold standard.

10

Q5. b. Explain different types of modern exchange rate.

5

Q5. c. State and explain factors responsible for growth of Eurocurrency markets.

5

XXX-----XXX-----XXX