

IF - 2015

TY BMS - Int. Finance

Q.P. Code : 21817

17/04/15

(2½ Hours)

[ Total Marks : 75

- N.B. : (1) All questions are compulsory.  
(2) From question 1 to 4 attempt any two among the three internal options.  
(3) Question 5 is compulsory with no internal options.

1. Answer any two

7.5

(a) Explain in brief various components of Balance of Payments. Also state what is the impact of imbalance in BOP on foreign currency rates in a country.

(b) A bank in India gives the following quotes-

7.5

GBP/INR - 110.2531/110.5522

100JPY/INR - 60.2128/60.2500

(i) State if the above quotes are direct quotes or indirect quotes

(ii) Convert indirect quote to direct quote

(iii) Find mid rate and spread of GBP/INR quote

(iv) Find inverse of GBP/INR quote

(v) Find GBP/JPY quote

(c) A bank in London gives the following quotes -

GBP/USD - 1.5485/1.5495

GBP/CAD - 1.6275/1.6285

USD/CAD - 1.0522/1.0532 ✓

Find arbitrage opportunity (if any) on 1 million for USD/CAD quote.

2. Answer any two

(a) Explain the difference between Fixed and Flexible Exchange Rate Management Systems. State what type of Exchange Rate Management System is followed in India.

7.5

(b) State, which is the best market to invest INR 10 million for 4 months. Following are the details available -

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Currency	Spot quote	4 Month Forward Rate	Interest Rate pa
INR	----	----	5% - 8%
USD/INR	65.7535	66.1200	2.50-3.50%
GBP/INR	105.7200	105.2010	3.50 - 4.50%
EUR/INR	88.2979	88.3900	1% - 2%

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- (c) Find the forward rate for USD/INR if following is the spot rate and swap points for 1 month, 3 months and 6 months 7.5
- |                |                 |
|----------------|-----------------|
| USD/INR (spot) | 65.2230/65.5250 |
| 1 month points | 250/350         |
| 3 month points | 380/670         |
| 6 month points | 200/100         |
- Also find 75 day forward rate

3. Answer any two

- (a) Explain in detail the difference between Merchant transactions and Interbank transactions. 7.5
- (b) What is Eurocurrency market? Also state the reasons for emergence of Eurocurrency market. 7.5
- (c) What is ADR? How it is different from GDR? State various types of ADR. 7.5

4. Answer any two

- (a) State what is meant by 'FEDAI'. Explain in detail the role of FEDAI in India. 7.5
- (b) Explain difference between futures and options contract. 7.5
- (c) Explain what is BIS. What is history of BIS? State current role of BIS. 7.5

5. (a) Case study -

In an article (recently published) it has been stated that ; The rupee needs to depreciate and a slow and gradual depreciation will be in interest of India. Global economy is slowing except for USA. Thus, demand for Indian exports is clearly subdued. Gradual depreciation of rupee may strengthen Exports. Exports in India need to grow and if they do not then it is not a good news for India. Strengthening of Rupee should be based on economic fundamentals like higher GDP growth rate, lower CAD, lower inflation, liquidity in financial market etc. The strengthening of Rupee should not be based on deliberate market intervention. Any undue strengthening of Indian Rupee which is not in line with underlying fundamentals is not a good sign. RBI should intervene only to control excessive volatility in forex market.

- (i) As per the case, state why the Rupee needs to depreciate gradually? 2
- (ii) What fundamental factors should influence the rupee value? 2
- (iii) When should RBI intervene? 2
- (iv) What is the difference between 'Depreciation' and 'Devaluation'? 2
- (v) What is meant by Market Intervention. 2

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- (b) Calculate the interest rate arbitrage if any on 1 million if following details are known to you. 5
- Spot USD/INR rate is 65.2315
  - Interest rate in India is 9% pa
  - Interest rate in USA is 2% pa
  - 6 months forward USD/INR rate is 65.2500

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