Time: 2 ½ Hours **Marks : 75**

N.B
1. All question are compulsory.
2. Make suitable assumptions wherever necessary and state the assumptions made.
3. Answer to the same question must be written together.
4. Numbers to the right indicate marks.

Q1) (A) Multiple Choices Question: (Any Eight) **(08)**

1. Ask quote is for _____________
   a) Hedger b) Buyer c) Seller d) Speculator
2. 100 INR / USD 2.1660 – 65 and 100 JPY / INR 34.6025 – 00. Calculate USD / JPY quotation.
   a) 11.21278 – 11.21809 b) 112.1278 – 112.1809 c) 1121.27 – 1121.80
   d) 1.1212 – 1.1218
3. A simultaneous purchase and sale of foreign exchange for two different dates it's called _______
   a) Currency exchange b) Currency valuation c) Currency swap d)Currency devalue
4. 'Our account with you' means ______ accounts
   a) LORO b) NOSTRO c) VOSTRO d) Current
5. OTC derivatives are considered risky because _____________.
   a) They are not settled on a clearing house b) There is no formal margining system.
   c) They do not follow any formal rules or mechanisms. d) All of the above
6. Making riskless profits due to price imperfections is referred to as:
   (a) Arbitraging (b) speculating (c) hedging (d) market making.
7. Forward contracts are ________ contracts.
   (a) unilateral (b) bilateral (c) tri-lateral (d) multilateral
8. Purchase of a share in one market and simultaneous sale in different market to benefit from price different is known as ______________
   a) Mortgage b) Arbitrage c) Hedging d) Speculation
9. _______________ is an OTC contract to buy an underlying asset at specified date in the future at a price fixed today
   a) Futures b) Options c) Swaps d) Forwards
10. Interbank market deals are conducted mainly over the ____________
    a) Telephone b) Telegraph c) Email d) Courier

Q1. B. Answer whether the below statements are true or false (Any seven) (07)

1. Overall balance in BOP (balance of payment) has direct relationship with exchange rate.
2. If few big speculators start buying a currency in an aggressive manner, and others follow the suit, it is known as 'Band wagon Effect.'
3. Market Sentiments are the perceptions of the market players due to market dynamics.
4. Interest rates and government policies have nothing to do with exchange rate movement.
5. If Ask rate is 1.2815 and Bid rate is 1.2810 then MID rate is 2.5625
6. In futures, normally with passage of time basis of a security reduces.
7. Speculation in futures market involves higher risk as compared to holding same position in spot market.
8. Futures are exchange traded.
9. Hedging increases the risk of investors.
10. Arbitrage refers to making riskless profit out of market imperfections.

Q2) (A) A one-month Nifty futures contract trades on the NSE. The cost of financing is 15% p.a. and the dividend yield on Nifty is 3% p.a. The spot value of Nifty is 18,560. What is the fair value of the futures contract using simple interest? **(08)**

Q2) (B) The equity shares of X Ltd. are being sold at Rs. 425. A 2-month call option with a strike price of Rs. 422 is available for a premium of Rs. 10. Find out the net payoff of the option holder given that the share price on the exercise day is (a) Rs.417, (b) Rs.422, (c) Rs.428, (d) Rs.433, or (e) Rs.440 **(07)**

OR

Q2) (C) Hedgers v/s Arbitrageurs in derivative markets. **(08)**

Q2) (D) Explain different types of Option Strategies. **(07)**

Q3) (A) Determine and calculate arbitrage opportunity (on delivery basis) if any from the following data pertaining to the share of ABC Ltd. –

1. Spot price per share – Rs. 136.
2. Two-month futures contract available at – Rs. 150 per share.
3. Borrowing cost (simple interest) – 12% p.a. **(08)**

Q3) (B) Explain "Reverse cash & carry arbitrage" in futures market. **(07)**

OR

Q3) (C) EURO/INR 88.8049 – 90.7049
Calculate Spread, MID rate , and % Spread. **(08)**

Q3) (D) Spot USD/JPY 119.3525
1 month forward rate 119.2780
Calculate 1 month AFM.
If JPY interest = 0.25% p.a. calculate EUR interest rate. **(07)**

Q4) (A) Identify the names of respective countries where the following is a direct quote. For each find indirect quote in that country.
a) INR 75.31 = GBP 1
b) USD 1 = INR 48.30
c) INR 126.26 = Omani Riyal 1 **(07)**

Q4) (B) Given:

GBP / AUD → 1.8250 – 1.8350
GBP / EUR → 1.2650 – 1.2790
Calculate i) EUR/AUD quotation
ii) AUD/EUR quotation **(08)**

OR

Q4) (C) Spot rate is Rs 61 per dollar. Interest rate in India is 8% per annum. Interest rate in US is 5% per annum. Calculate possible 6 months forward rate as per international fisher effect. **(08)**

Q4) (D) Explain different types of Foreign Exchange Risk **(07)**

Q5) (A) Define Foreign exchange market. What are the factors affecting changes in exchange rate **(08)**

Q5) (B) Distinction between Nostro and Vostro Accounts. **(07)**

OR

Q5) (C) Short Notes (Any three). **(15)**

1. Gold Standard
2. Payoff for a long future contract.
3. Forex Transactions
4. Interest Rate Parity
5. Payoff for a short call.

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