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University of Petroleum & Energy Studies

College of Management & Economics Studies

Bidholi Campus, Dehradun

End-Semester Examination – May, 2017

Programme Name: BBA (FSM) | **Semester IV**
Subject: International Financial Management | **M.Marks: 100**
Subject code:BBCF 140 | **Duration: 3 Hrs**

Section – A (20 Marks)

Q1 The market where currencies are traded is known as the ______.
(a) Equity Market
(b) Bond Market
(c) Fixed Income Market
(d) Foreign Exchange Market

Q2. What is the difference between Arbitrage and Hedging?

Q3. Arbitrage is a strategy of taking advantage of _____ between two markets.
(a) Price differential (b) theoretical prices
(c) Interest rate differential (d) timing

Q4. A trader expects to see a fall in the price of USD-INR. He sells one two-month contract of futures on USD at Rs. 38.00 (each contact for USD 1000). Two months later, when the futures contract expires, USD-INR rate is Rs. 32.00. The trader makes a profit of Rs. ___.
(a) 2000 (b) 3000
(c) 12000 (d) 6000

Q5 Purchasing power parity refers to that
(a) Interest rates across countries will eventually be same
(b)There is a relationship between spot and forward rates
(c)Goods should sell at the same price across countries after exchange rate considered
(d)None of the above

Q6.Define Swap.

Q7. What is balance of trade?
Q8. Assume that the inflation in India is 50% and inflation in US is 2%. Calculate the change in ₹ spot rate according to the PPP condition.

Q9. Distinguish between foreign exchange exposure and foreign exchange risk

Q10 The spot exchange rate between £ and $is $ 2.68/£. The current rate of interest in two countries are 6% and 8% respectively. Calculate the forward exchange rate.

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Section – B (20 Marks)

The students may attempt 4 questions of 5 marks each

Q1Briefly describe the internal hedging strategies that may be used for hedging transaction exposure.

Q2. Explain the following terms:

a) Strike Price b) Option Premium c) Writer of Option d) Expiry date

Q3. The US $ is selling in India at ₹45.50. If the interest rate for a 6 months borrowing is 8% p.a. and the corresponding rate in US is 2%.

i) Do you expect US $ to be at premium or at discount in the Indian forward market?
ii) What is the expected 6month forward rate for $ in India, and
iii) What is the rate of forward premium or discount?

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Q4. What is Capital Account? Explain the structure of capital account.

Q5. Three put options X,Y and Z with strike prices of Rs 100, Rs 105,and Rs 110 are selling at Rs 2, Rs 5 and Rs 13 respectively. Current market price of the underlying asset is Rs 105. What is the moneyness of each of the options? What would be the moneyness of each option if each put price increases by Rs 2?

Section – C (30 Marks)

Each question carry 10 marks. Attempt any three

Q1. Explain how these exchange-rate systems function a) gold standard b) Bretton woods system c) crawling peg d) managed float and e) free floating

Q2. Explain how currency forwards can be used to hedge the risk in foreign exchange deals.

Q3. Company P and Company Q have equal requirement of funds of Rs 50 crore each. They have been offered following rates in the fixed and floating rate markets for debt

	Fixed Rate	Floating Rate
Company P	9%	MIBOR+100bps
Company Q	11.5%	MIBOR+200bps

Company P wants funds at floating rate while Company Q is happy to raise funds at fixed rate basis. Depict a swap sharing the gains of swap equally and find out the cost of funds for Company P and Company Q. What would be the saving in financing cost of each firm?

Q4. What are the limitations of forward contract and how does a futures contract overcome them?

Section – D (30 Marks)

Attempt any two. Each question carry 15 Marks

Q1. A 2-month call option on an asset with strike price of Rs 2,100 is selling for Rs 140 when the share is trading at Rs 2,200. Find out the following:

i) What is the intrinsic worth of the call option?

ii) Why should one buy the call for a price in excess of intrinsic worth?

iii) Under what circumstances the option holder would exercise his call?

iv) At what price of the asset the call option holder would break even?

v) If the price of the asset becomes Rs 2,150, should the option holder exercise the call option?

vi) What is the profit/loss of the holder and writher if the price of the asset is Rs 2,000, Rs 2,250 and Rs 2,500 on the date of expiry of the option?

Q2. What is foreign exchange market? Discuss the transactions and participants of foreign exchange market.

Q3. Differentiate between the following termrs:

i) Absolute and Relative Purchasing power parity

ii) Fisher Effect and International Fisher Effect