

Name:

Enrolment No:



UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM & ENERGY STUDIES

End Semester Examination (Online) – July 2020

Program: MBA IB

Semester : II

Subject/Course: Foreign Exchange Management & Trade

Max. Marks: 100

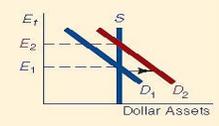
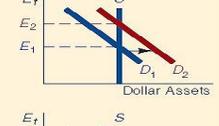
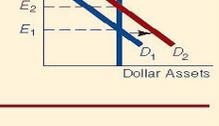
Course Code: INTB 7003

Duration : 3 Hours

IMPORTANT INSTRUCTIONS

1. The student must write his/her name and enrolment no. in the space designated above.
2. The questions have to be answered in this MS Word document.
3. After attempting the questions in this document, the student has to upload this MS Word document on Blackboard.

		Marks	COs																
Q.1	<p>(a) The price of a Big Mac in the U.S.A. was \$5.67. The price of a Big Mac in the Euro Zone was € 4.58. What is the implied PPP? The actual exchange rate was \$1 = € 0.8994. Is Euro overvalued or devalued? If so, how much percentage? Can you use the price of the multiple products? Why or why not? (10 Marks)</p> <p>(b) How do you prove purchasing power parity theory with the help of law of one price (use your own example)? (10 Marks)</p>	20	CO1																
Q.2	<p>Discuss theoretically how the factors that are affecting demand for the assets and exchange rate in the following graphs.</p> <p>TABLE 15.2 Summary Factors That Shift the Demand Curve for Domestic Assets and Affect the Exchange Rate</p> <table border="1"> <thead> <tr> <th>Factor</th> <th>Change in Factor</th> <th>Change in Quantity Demanded of Domestic Assets at Each Exchange Rate</th> <th>Response of Exchange Rate, E_t</th> </tr> </thead> <tbody> <tr> <td>Domestic interest rate, i^D</td> <td>↑</td> <td>↑</td> <td>↑</td> </tr> <tr> <td>Foreign interest rate, i^F</td> <td>↑</td> <td>↓</td> <td>↓</td> </tr> <tr> <td>Expected domestic price level*</td> <td>↑</td> <td>↓</td> <td>↓</td> </tr> </tbody> </table>	Factor	Change in Factor	Change in Quantity Demanded of Domestic Assets at Each Exchange Rate	Response of Exchange Rate, E_t	Domestic interest rate, i^D	↑	↑	↑	Foreign interest rate, i^F	↑	↓	↓	Expected domestic price level*	↑	↓	↓	20	CO2
Factor	Change in Factor	Change in Quantity Demanded of Domestic Assets at Each Exchange Rate	Response of Exchange Rate, E_t																
Domestic interest rate, i^D	↑	↑	↑																
Foreign interest rate, i^F	↑	↓	↓																
Expected domestic price level*	↑	↓	↓																

Expected trade barriers*	↑	↑	↑	
Expected import demand	↑	↓	↓	
Expected export demand	↑	↑	↑	
Expected productivity*	↑	↑	↑	

*Relative to other countries.

Note: Only increases (↑) in the factors are shown; the effects of decreases in the variables on the exchange rate are the opposite of those indicated in the "Response" column.

<p>Q.3</p>	<p>Foreign exchange reserves a cushion for India against virus impact: RBI gov</p> <p>He stressed that a swap line was critical from the point of view of preserving global financial stability</p> <p><u>Subrata Panda</u> Mumbai Last Updated at March 7, 2020 02:10 IST</p> <p>Reserve Bank of India Governor Shaktikanta Das has asked the International Monetary Fund (IMF) to consider launching non-stigmatised currency swap lines to ease possible liquidity and financing constraints for countries that have been adversely affected by coronavirus (COVID-19). It will also preserve their access to international capital markets.</p> <p>“The point is a coordinated swap line will act as a second line of defence to bolster national reserves across countries and strengthen their individual abilities to safeguard against risks that coronavirus may entail,” Das said. He stressed that a swap line was critical from the point of view of preserving global financial stability. The global economy has been hit hard by COVID-19. According to IMF projections, the outbreak’s impact on the global economy will be 0.1 per cent and 0.4 per cent on the Chinese economy.</p> <p>As far as India is concerned, Das said, “India will be able to respond to whatever challenges emerge out of the coronavirus problem. We don’t have a problem because our foreign exchange reserves are quite robust.</p> <p>Although India is much more integrated with the global economy than it was 10-20 years ago, it is not as integrated in the global value chain as some other countries. So, to that extent, India remains insulated, he said. However, certain sectors will face challenges because they export to China. But talks have taken place between the various stakeholders and steps are being taken to mitigate the likely problems that these sectors face.</p>	<p>20</p>	<p>CO4</p>
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	<p>The governor also reiterated that RBI will take every measure needed to secure the economy against the challenges arising from COVID-19. Earlier, it had issued a statement saying it was ready to take steps to ensure that markets run well and confidence is maintained.</p> <p>RBI is monitoring global and domestic developments. Globally, financial markets have been experiencing considerable volatility, with the spread of COVID-19 making investors risk averse and prone to banking on safe havens. Spillovers to financial markets in India have largely been contained, the RBI had said.</p> <p>Source: Business Standard First Published Sat, March 07 2020. 00:27 IST</p> <p>(a) Why does RBI ask for IMF driven currency swaps? (5Marks) (b) How was a swap line critical in preserving global financial stability? (5 Marks) (c) "Rupee depreciated sharply by more than 2.5 percent to hit a 17-month low in March first week as investor sentiments remained fragile amid escalating worries over the impact of rapidly spreading coronavirus globally," Rahul Gupta, Head of Research - Currency, Emkay Global Financial Services, said. What do you imply from this statement? (5 Marks) (d) How does the international capital market volatility affect the currencies through the spillover effect? (5 Marks)</p>		
Q.4	<p>"Trade-related Illicit Financial Flows in 135 Developing Countries: 2008-2017", for 2017, five countries with the largest identified value gaps were China at USD 457.7 billion, followed by Mexico at USD 85.3 billion, India at USD 83.5 billion, Russia at USD 74.8 billion, and Poland at USD 66.3 billion.</p> <p>(a) What are the different methods of trade-based money laundering against India? How India has been affected by it? (10 Marks) (b) What do you suggest to improve the surveillance, litigation, and policy measures? (10 Marks)</p>	20	CO3
Q.5	<p>Trade financing is critical to take advantage of export opportunities. To support exporters it is necessary to identify the best banks that help to mitigate the risks that are being faced by exporting and manufacturing companies.</p> <p>Identify and analyze the top 5 banks of the world that provide working capital and trade finance services. Explain with rational and statistical justifications.</p>	20	CO4

ANSWERS