

20/31/L

PRELIM EXAMINATIONS

CLASS : TYBMS

SUBJECT : INTERNATIONAL FINANCE

Duration : 2 Hours

Marks : 60

N.B. : (i) All the questions in Section I are compulsory. (ii) Attempt any three questions from Section II.
(iii) Use of simple calculator is allowed.

SECTION I

- (1) Explain in brief:- (15)
(a) Special Drawing Rights (SDR) (b) Tax Haven (c) Vostro Account (d) Vehicle Currency
(e) Hedging
- (2) (a) From the following rates, find out JPY INR Rate: (5)
CHF/ INR 32.7730/32.7750
CHF/ JPY 83.5540/83.5600
- (b) Read the following paragraph and answer the questions given below:- (10)

The U.S. **subprime mortgage crisis** was one of the first indicators of the late-2000s financial crisis, characterized by a rise in subprime mortgage delinquencies and foreclosures, and the resulting decline of securities backed by said mortgages.

The ratio of lower-quality subprime mortgages originated rose from the historical 8% or lower range to approximately 20% from 2004–2006, with much higher ratios in some parts of the U.S. A high percentage of these subprime mortgages, over 90% in 2006 for example, were adjustable-rate mortgages. These two changes were part of a broader trend of lowered lending standards and higher-risk mortgage products. Further, U.S. households had become increasingly indebted, with the ratio of debt to disposable personal income rising from 77% in 1990 to 127% at the end of 2007, much of this increase mortgage-related.

After U.S. house sales prices peaked in mid-2006 and began their steep decline forthwith, refinancing became more difficult. As adjustable-rate mortgages began to reset at higher interest rates (causing higher monthly payments), mortgage delinquencies soared. Securities backed with mortgages, including subprime mortgages, widely held by financial firms, lost most of their value. Global investors also drastically reduced purchases of mortgage-backed debt and other securities as part of a decline in the capacity and willingness of the private financial system to support lending. Concerns about the soundness of U.S. credit and financial markets led to tightening credit around the world and slowing economic growth in the U.S. and Europe.

P.T.O.

11/8/09

- (i) Why sub-prime crisis took place? (4)
- (ii) Where did sub-prime crisis originate? (1)
- (iii) What are your views on current crisis in Europe? Do you see any link between sub-prime crisis and Euro Crisis? (5)

SECTION - II

3.(a) Two banks are quoting the following US \$ rates:

Bank A : USD/INR 39.20/39.30

Bank B : USD/INR 39.40/39.50

Find out the arbitrage opportunities.

(5)

(b) Following quotes are available in Mumbai:

(i) USD/INR 39 (Spot) and USD/INR 38 (6 months)

(ii) EUR/INR 57 (Spot) and EUR/INR 59 (6 months)

Calculate annualized % forward premium or discount on \$ and Euro.

(5)

4.(a) An Indian firm would like to invest Rupees 2 million in the USA for 6 months.

Spot USD/INR 48.8840/48.8860

6-month forward USD/INR 49.2340/49.2360

USA Interest Rates 4.25%-4.50%

Calculate the net interest earned in Indian Rupees.

(b) The following quotes are available:

(5)

Spot EUR/USD 0.8385/0.8391

3 months forward 20/30

Spot GBP/USD 1.4548/1.4554

3 months forward 35/25

Find the 3 month GBP/EUR outright forward rates.

(5)

- 5.(a) Enumerate the characteristics of euro-currency market. (5)
- (b) Explain the factors that determine the rate of exchange. (5)
- 6.(a) Write a short note on BIS. (5)
- (b) Distinguish between forward contracts and future contracts. (5)