

## OCT 2011 SEM 6 REV

Q1 Explain in Brief Special Drawing Rights (SDR). 5marks

Q 2 Explain in Brief Dirty or Managed Float. 5marks

Q 3 Explain in Brief Nostro Account. 5marks

Q 4 Explain in Brief Authorised Dealers. 5marks

Q 5 Explain in Brief Translational Exposure. 5marks

Q6 USD 1 = EURO 0.7315 (Spot rate)

3 month forward rate 0.7370

Annualized interest rate on EUR 7%

Annualized interest rate on USD 9%

Find if arbitrage gain is possible and calculate the gain for 1 million. 5marks

Q 7 Read the following case and answer the questions given below.

The plans of Indian companies' to raise more than a billion dollars by selling Global Depository Receipts, or GDRs, have been stalled due to overseas investors pulling out funds from emerging markets. Soaring prices of crude oil and commodities could take the sheen out of emerging markets like India as they battle inflation with higher interest, which cuts corporate earnings. After peaking at 1,600 crore in August 2009, capital raised by Indian corporates through GDRs slumped to 110 crore in November 2010. Overseas investors have turned jittery after the recent Libyan crisis, coupled with a substantial decline in local shares. "GDRs are an absolute no these days," says Raj Bhatt, vice-chairman and chief executive of Elara Capital "Both the local market correction and Arab crisis have impacted sentiments in both the local and international markets, making it tough for promoters to raise cash from the international markets."

Now, overseas investors are finding only convertible bonds floated by local infrastructure companies or special purpose vehicles interesting, he said. Instability in the Middle East could prolong the bearish trend, making it tough for fund raising plans abroad.

Investors pulled out of emerging-market funds for the sixth week with redemptions of \$2.5 billion in the week ended March 2. Dhananjay Sinha, senior VP, strategist & economist, Centrum Broking, said the downtrend in GDRs seems to have a direct correlation with foreign direct investment (FDI) inflows. He noted that FDI inflows have been declining since last year; capital raised through GDRs/ADRs also had been declining since mid-2009. FDI inflows were at \$3.5 billion in July 2009, dipping to \$1.6 billion in November 2010. Answer the following questions

i) What is a GDR ? (2marks)

- ii) Mention any three reasons why the GDR issue has become unattractive as per this article (3marks)
- iii) What type of foreign investment is hedge funds associated with? (1 mark)
- iv) What is a convertible bond? (2marks)
- v) Do you agree with the statement that there is a direct co-relation between FDI and GDR. Support your answer with figures. (2marks).

10marks

Q 8 The following quote is given in New York.

EUR 1 = USD 1.2596/1.2620

Is it a direct or indirect quote? (1 mark)

Find the mid rate, spread and the spread percentage (3marks)

Calculate the inverse quote? (1 mark).

5marks

Q9 The following foreign exchange quotes are available in New York.

AUD 1 = USD 0.7602/0.7613

CAD 1 = USD 0.6732/0.6741

Calculate cross currency quote for 1 CAD in terms of AUD

The following quote is available in Sydney

CAD 1 = AUD 0.8895/0.8915

Compare this with the calculated cross currency quote and state whether arbitrage opportunity exists. Calculate the same (if any) for 1 million CAD. 5marks

Q10 The following quotes are given in Mumbai

USD 1 = INR Spot 77.000/77.200 (spot)

3 months forward 77.300/77.600

Write the forward quotation in the outright form. (1 mark)

Calculate the annualized forward premium / discount for the bid & offer rates. (2marks)

What is the forward quote for 2 months and 20 days (2marks).

5marks

Q11 From the following decide the best alternative for borrowing INR 4 million for 6 months on a risk free basis.

	Spot(in INR)	6 months Forward(in INR)	Interest (p.a.)
INR	-	-	5.75-6.00
USD	45.8830/60	46.2330/60	4.25-4.50
GBP	91.4750/80	91.6750/80	5.25-5.50

5marks

Q 12 Enumerate the characteristics of euro-currency market. 5marks

Q13 Explain the factors that determine the rate of exchange. 5marks

Q14 Write a short-note on Bank for International Settlement (BIS). 5marks

Q15 Distinguish between forward contracts and future contracts. 5marks