INTERNATIONAL FINANCE

OCT 2012 SEM 6

Q1 Explain Vostro Account. 3marks

Q 2 Explain Global Depository Receipt. 3marks

Q3 Explain Special Drawing Rights. 3marks

Q 4 Explain Authorised Dealers. 3marks

Q 5 Explain Petro Dollar. 3marks

Q6 From the given information identify the arbitrage opportunity and calculate the profit for 1 million:
1 GBP = USD 1.5000 (Spot)
1 GBP = USD 1.4985 (3 month forward)
3 month interest rate on GBP 6% p.a.
3 month interest rate on USD 5% p.a.

5marks

Q7 Read the following and answer the questions given below :-
The value of currency, like the price of any other good or service, depends on its dernand and supply. And demand for a currency, the US dollar, typically comes from lndian importers, people or institutions that invest in the US
(FDl or Fll outflows) and travellers to the US. Allthese agents require dollars for transacting in the US.
Analogously, exporters to the US, travellers to lndia, FDI and Fll inflows supply US dollars in return for rupees to transact in lndia. If the demand for the rupee decreases compared to, say, the US dollar, the value of the rupee goes down, and vice-versa.
Currently, the RBI controls foreign money flowing in and out of the country through different routes. At the same time, it selectively engages in buying and selling of foreign currencies to mediate
demand and supply in the forex market.
ln effect, the RBI regulates the forex market intermittently. But its ammunition to defend the value of the rupee at any particular level is not sustainable for several reasons, First, lndia'sforex reserves, which
stand at $ 260 billion approximately, cannot defend the falling rupee eternally. Even worse, much of the reserves are liabilities than assets, implying that our owenership in reserves is that much lower to help moderate currency demand and supply. To explain, let us assume that one bad day, all foreign investors (FDl and Fll holders) in our country decide to take back their money (which is extremely unlikely). In that dire situation, the RBI would have to borrow to a tune of $ 215 million to pay them all back. Also, the

increasing oil imports and falling export share in the recent months have contributed significantly towards draining (the already concerning levels of) our forex reserves. The arguments above indicate that the RBt does not have sufficient cushion to adhere to a fixed rate regime.

Questions :-
(i) Distinguish between FDI and Fll investments.(4marks)
(ii) Why does the author feel that the falling Rupee can not be defended eternally ?(2marks)
(iii) What are the causes for drain in foreign exchange reserves ?(2marks)
(iv) What is fixed exchange rate ?(2marks).

10marks

Q 8 Study the following quote:
1 USD = NZD 1.5510/1.5560
(i) Find the midrate, spread and spread percentage. (3marks)
(ii) Find the inverse quote. (2marks).

5marks

Q9 The following quotes are from New York:-
1 GBP = USD 1.5975/6010
1 EUR = USD 1.2375/90
Find the Cross rate GBP EUR. (3marks)
The following quote is from Frankfurt:-
1 GBP = EUR 1.2950/65
Find whether there is arbitrage opportunity. Lf arbitrage is possible find the arbitrage profit for 1 million Euros. (2marks).

5marks

Q10 The following quotes are from Mumbai Spot 1 USD =Rs. 49.5600/5700:
1 month forward 600/700
2 month forward 1500/1600.
(i) Write the quotes in outright form
(ii) What is the premium or discount percentage on bid and ask rates For one month?
(iii) What is forward quote for 50 days?

5marks

Q 11 From the following data decide the best option for borrowing 10 million rupees For a period of 6 months:

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Currency	Spot in INR	6 month forward in INR	Interest rate %
GBP	95·25 – 95·30	95·36 – 95·46	5·25 – 5·50
EUR	64·00 – 64·10	64·28 – 64·32	5·00 – 5·25
INR			5·75 – 6·00

5marks

Q12 What are the merits and demerits of Flexible Exchange Rates? 5marks

Q13 Discuss the factors that led to the growth of Euro Currency Markets. 5marks

Q 14 What are the salient features of Currency Options? 5marks

Q 15 Write a short note on Bank for international Settlement. 5marks