(ii) Letter of Credit

(iii) International Fischer Effect

(iv) Special Drawing Rights (SDRs)

(v) Currency Demand and Supply Curve

[This question paper contains 8 printed pages.]

Your Roll No..............

Sr. No. of Question Paper : 6212 **J**

Unique Paper Code : 2923102005

Name of the Paper : International Financial Management

Name of the Course : **B.A. (H) Business Economics**

Semester : IV / VI

Duration : 3 Hours Maximum Marks : 90

<u>Instructions for Candidates</u>

1. Write your Roll No. on the top immediately on receipt of this question paper.

2. Attempt any **five** questions, **all** questions carry equal marks.

3. Use of simple calculator is allowed .

4. If any assumption is made while solving a problem, the same must be stated clearly.

1. (a) Calculate the cross rate (synthetic quote) S(€/¥) using the following exchange rates :

S($/€) = 1.1852 / 1.1856 and S($/¥) = 0.0091/ 0.0092

(b) Using the two quotes given above compute cross rate. Check if any arbitrage opportunity exists. Justify your answer by giving a reason.

(8,10)

2. (a) What do you mean by covered interest yield? Consider the following exchange rates :–

- Spot: S($/£) = 1.452 & S($/€) = 1.593
- Forward (3 Months): F($/£) = 1.444 & F(€/$) = 0.621.

Further, you are provided information on following interest rates :–

(e) Which of the hedging alternatives stated above would you recommend to XYZ Co and why?

(3,3,5,4,3)

5. (a) Why doesn't devaluation lead to correction in balance of trade immediately?

(b) A company may choose not to hedge if statistical analysis indicates minimal exposure to risk. Discuss with the help of a relevant example.

(c) Briefly explain the role of following factors with respect to exchange rates :–

(i) Terms of Trade

(ii) Relative Inflation Rate (6,6,6)

6. Write a short note on any **three** of the following : (6×3=18)

(i) Gold Standard and Gold Exchange Standard system(s) of Payments

- One-Year £ Interest Rate (Deposit/Borrowing): 2.00% / 2.40%

- One-Year Call Option on £ (Strike Price: ₹97) Premium: 2.2%

- One-Year Put Option on £ (Strike Price: ₹95) Premium: 1.2%

- Expected Spot Rate after 90 days (₹/£): ₹96.80 (Probability: 0.75) and ₹97.30 (Probability: 0.25)

(a) What happens if XYZ Co. does not involve in any kind of hedging?

(b) What is the hedged value of XYZ Co's payables using a forward market hedge?

(c) What is the hedged value of XYZ Co's payables using a money market hedge?

(d) What currency option hedging alternatives are available to XYZ Co? Which option strategy would you recommend?

$ Deposit = 4.322% p.a, £ Deposit = 5.134 p.a, and Euro Deposit = 3.925% p.a.

Calculate which route, Direct or Indirect gives maximum return assuming home currency is dollar i.e. amount is available in $.

(b) The following exchange rates are observed in the foreign exchange market :

- Spot Rate (₹/1 USD): ₹82.30/82.60

- 2-Month Forward Rate (₹/1 USD): ₹82.90/83.40

Are the forward rates at a premium or discount? Calculate the percentage premium or discount.

(c) Suppose Bank A sells a call option on British pounds (contract size: £500,000) at a premium of ₹2.50/ £. If the exercise price is ₹105/£ and the spot price of the pound at the date of expiration is ₹108/£, what is Bank A's profit (loss) on the call option? Draw the payoff profile from above.

(d) What is a spread in a currency market & how is it computed? (7,3,4,4)

3. For each of the following parts you are required to identify and define the relevant international finance theory and also provide the solution for the same:

(a) Two countries, US and UK produce only one good, "wheat". Suppose the price of wheat is \$3.25 in the United States and £1.35 in England. What should be the \$:£ spot exchange rate?

(b) The one-year interest rate is 12% on British pounds and 9% on U.S. dollars. Using the spot rate computed Q3 (a) determine the expected future exchange rate in one year?

(c) Given the interest rates from Q3 (b) and spot rate in Q3 (a), determine the appropriate 3-month forward exchange rate that should prevail in the market ensuring no arbitrage opportunity exists.

(d) Projected inflation rates for US and UK for the next five years are expected to be 10% and 4% p.a. respectively. As per the spot exchange rate in part (a) what should the exchange rates five years from now?

(e) Do you think some (or all) of the international finance theories used above are related to one another. If yes, show the relation with the help of a diagram. If not, then why do you think the theories are not linked. (3,3,3,3,6)

4. XYZ Company has a payable of £80 million due in 1 year. You are given the following details :

- Spot Rate (₹/1£): ₹95.3020/4850
- One-Year Forward Rate: (₹/1£): ₹97.4501/5695
- One-Year ₹ Interest Rate (Deposit/Borrowing): 5.50% / 6.50%

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CORRIGENDUM

Sl. No. of Q.P	:	6212
Unique Paper Code	:	2923100012
Name of the Paper	:	International Financial Management
Course	:	B.A. (Hons) Business Economics
Exam	:	02/06/2025 Morning
SEMESTER/YEAR	:	IV/VI
DURATION	:	3 Hour
Maximum Marks	:	90

Announcement for candidates

Upc be read as **2323100012** instead of 2923102005

Joint Registrar (Secrecy)