Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER - 4 – EXAMINATION – SUMMER 2019

Subject Code: 3549223 **Date: 08/05/2019**
Subject Name: Foreign Exchange Management
Time: 10:30 AM to 1:30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1		Explain the following terms: (a) Currency Risk (b) Tax Neutrality (c) Tax Heaven (d) In the money option (e) Arbitrage (f) Non Residents (g) Risk Free Interest Rate	**14**
Q.2	**(a)**	Discuss the scope of forex management and explain the advantages of Forex trading.	**07**
	(b)	What is interest rate risk? How to hedge interest rate risk? Explain with an example.	**07**
		OR	
	(b)	What is currency future? What are the specifications on exchange traded currency futures contract?	**07**
Q.3	**(a)**	Differentiate currency forward, currency futures and currency options.	**07**
	(b)	What is the difference between risk and exposure? Explain major three types of exposure with reference to forex management.	**07**
		OR	
Q.3	**(a)**	Differentiate an interest rate swap and a currency swap.	**07**
	(b)	Write a note on basic structure currency swap and its usage.	**07**
Q.4	**(a)**	What is translation exposure? What are the different methods of translation? Discuss each of them.	**07**
	(b)	Discuss the application and scope of AS 21.	**07**
		OR	
Q.4	**(a)**	What is transfer pricing? Discuss various types of transfer pricing methods.	**07**
	(b)	Give a brief summary of the types of accounts that persons resident out of India can open with banks in India.	**07**

Q.5 X Ltd an Indian company has an export exposure of 10 million (100 lakhs) Yen, value September end. Yen is not directly quoted against Rupee. The current spot rates are USD/INR = 41.79 and USD/JPY =129.75. **14**

It is estimated that Yen will depreciate to 144 level and Rupee to depreciate against Dollar to 43.

Forward rate for September, 2010 USD/Yen = 137.35 and USD/INR = 42.89.

You are required:

1. to calculate the expected loss if hedging is not done. How the position will change with company taking forward cover?
2. If the spot rate on 30^{th} September, 2010 was eventually USD/Yen = 137.85 and USD/INR = 42.78. Is the decision to take forward cover justified?

OR

Q.5 Marico Marines Ltd has to pay USD 5,00,000 at the end of six months from today. It is considering the following alternatives to manage the exposure: (1) use forwards (2) use money market hedge (3) use options (4) remain unhedged. It has collected the following information to take a decision: **14**

(a) Spot rate for US Dollar Rs. 44.80

(b) Six months forward rate for US Dollar Rs. 44.95

(c) Interest Rates:

Rupee	7.15/7.25
Dollar	6.30/6.40

(d) Call option due 6 months – Strike price Rs. 44.98, Premium Rs. 0.05.

(e) Forecast Spot rate for 6 months:

Rs./Dollar	Probability
Rs. 44.90	60%
Rs. 45.00	30%
Rs. 45.10	10%

Examine the alternatives and suggest the method that Marico Marines may adopt.

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