2013

[This question paper contains 4 printed pages.]

Sr. No. of Question Paper : 2576 **Roll No............**

Unique Paper Code : 101536

Name of the Course : Bachelor of Business Studies 2013

Name of the Paper : International Finance

Semester : V

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt any **five** questions.

1. (i) What will be 30 days and 90 days forward rates when the following information is given ?

Spot rate	30 days rates	90 days rates
\$/BP : 1.150-30	15-20	20-15

(4)

(ii) From the given quotations :

GBP/USD: 1.52/72
EUR/USD: 1.45/85
USD/JPY: 75.80/90

What will be GBP/EUR; ; GBP/JPY; and EUR/JPY ? (4)

(iii) You have \$10,00,000 amount to invest. The current spot rate of the BP is \$1.40, and the 90 days forward rate of the BP is \$1.70. The 90 days interest rate in the US is 2.5% and it is 4.5% in UK. What will be the profit/loss from arbitrage ? (4)

(iv) Explain the target zone exchange rate system ? (3)

2. (i) On Monday morning, an investor takes a long position over BP futures contract that matures on Thursday afternoon. The agreed upon price is \$1.45

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for BP 65,000. What will be the investor/buyer profit/loss on the mark to marking at the given exchange rates;

Monday \$1.56; Tuesday \$1.70; Wednesday \$1.65; Thursday \$1.45 (4)

(ii) XYZ Bank is quoting British Pound (BP) in New York as \$1.1110-51. (4)

(a) How much would BP 5,00,000 cost in New York ?

(b) What is the bid, ask and percentage spread of XYZ bank ?

(iii) The exchange rate between Swiss frac and US dollar moved from 1.30/\$ to 1.70/\$ during the time period of 2008 and 2012. And during this time period the consumer price index (CPI) in Switzerland rose from 90.0 to 130 and the U.S CPI rose from 80 to 140. If purchasing power parity holds good, What should be the exchange rate between Swiss franc and dollar ? (4)

(iv) Explain the concept of euro deposit and euro loan with suitable example. (3)

3. (i) Gator Corp. will receive BP 3,00,000 in 180 days. Which hedging techniques is best out of (1) Forward Market Hedge (2) Money Market hedge (3) Option hedge (4) No hedge ? (12)

Spot rate of BP as of today : \$1.50
180 days forward rate of BP as of today \$1.47

Interest rates in the two countries is given as follow :

	UK	US
180 days deposit rate	4.0%	4.5%
180 days borrowing rate	5.0%	5.5%

A call option on BP that expires in 180 days has an exercise price of \$1.48 and a premium of \$0.03.

A Put option on BP that expires in 180 days has an exercise price of \$1.49 and a premium of \$0.02.

XYZ Ltd forecasts the future spot rate in 180 days as follow :

Possible rates	probability
\$1.43	20%
\$1.46	70%
\$1.52	10%

(ii) Explain the difference between syndicate loan and parallel loan. (3)

4. (i) The annual interest rate in the US is 10%, in UK it is 8%. The spot rate for the BP is $1.42. If interest parity holds good, what is the 30 days forward rate ? (4)

(ii) Is there any possibility of currency arbitrage if following information is given ? If yes then what will be the profit ? If no then why ?

British pound is bid at $1.5422 in New York and euro is offered at $0.9251 in Frankfurt. At the same time London banks are offering pound at Euro1.6650. ? (4)

(iii) Create the bull spread by using the following options and calculate the profit/ loss of investor at the mentioned future spot rates. (4)

Option 1-A three month call option over $1,00,000 is available with Rs. 40/$ exercise price and 10/$option premium.

Option 2-A three month call option over $1,00,000 is available with Rs. 50/$ exercise price and Rs. 5/$.

Future spot price - Rs. 30/$; Rs. 45/$; Rs. 60/$

(iv) What do you understand by financial swap ? Briefly discuss the different types of swaps. (3)

5. (i) Two countries US and England produce only one good, wheat. Suppose the price of wheat is $3.25 in US and is BP 1.35 in England.

(a) According to law of one price, what should be the $/BP spot rate ?

(b) Suppose the price of wheat over the next year is expected to rise to $3.50 in the US and to BP 1.60 in England. What should the one year $/BP forward rate ? (4)

(ii) A US based XYZ Co. has business operations in US (US$) and Canada (C$). Prepare the consolidate income statement of the Co. if the exchange rate is US$0.80/C$ (all figure in million). (4)

Sales :

US:	$300
Canda:	C$4

Cost of good sold :

US:	\$50
Canda:	C\$200

Operating expenses:

US: fixed	\$30
US: Variable (10% of total sale)	

Interest expenses:

US:	\$3.0
Canda:	C\$10

(iii) Gary Howards works for an international bank in Toronto. He believes the Canadian dollar will appreciate v/s the US dollar over the coming 90 days. The current spot rate is USD 0.85/CSD. Gary may choose between the following options on the Canadian dollar :

Options choices on the Canadian dollar	Call Option	Put Option
Strike Price	USD 0.94/CSD	USD 0.90/CSD
Premium (USD/CSD)	USD 0.0249	USD 0.0003

Required :

(a) Which Option Gary should buy ?

(b) What is the Gary's break even price on the Option purchased ?

(c) What is Gary's net profit/loss if the ending spot rate is USD 0.96/CSD ? (4)

(iv) How does Speculation differ from Arbitrage ? (3)

6. Write a short note on any **five** with suitable example :

(i) Pre and post shipment line of credit

(ii) Straddle

(iii) Interest rate agreements.

(iv) Purchasing power parity

(v) Political risk

(vi) Revaluation and devaluation of currency

(vii) Value dates (5×3=15)

Paper. 504 F-2 2012

[This question paper contains 6 printed pages.]

Sr. No. of Question Paper : 1147 **Roll No............**

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Name of the Course	: Bachelor of Business Studies
Semester	: V
Duration	: 3 Hours
Maximum Marks	: 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt any **five** questions.

1. (i) What will be 90 days and 120 days forward rates when the following information is given ?

Spot rate	90 days rates	120 days rates	
S/BP : 2.0015-30	10-20	30-20	(4)

(ii) The interest rate in the US is 12%, in Japan it is 9%. The spot rate for the yen is $0.0042. If interest parity holds good, what is the 120 days forward rate ? (4)

(iii) From the given quotations : (4)

GBP/USD: 1.7867/71

EUR/USD: 1.3190/95

USD/JPY: 78.80/90

USD/INR: 52.54/58

Calculate GBP/EUR; GBP/INR; GBP/JPY; EUR/JPY; EUR/INR and INR/JPY.

(iv) What is crawling peg exchange rate system and this system is good for which type of countries ? (3)

2. (i) You have $8,00,000 amount to invest. The current spot rate of the BP is $1.60, and the 90 days forward rate of the BP is $1.60. The 90 days interest rate in the US is 2% and it is 4% in UK. What will be the profit from arbitrage ? (4)

(ii) The spot exchange rate ($/€) both in Frankfurt and in New York is $1.2. The one-year Treasury bill rates are 6.5% per year in Frankfurt and 3.2% in New York. The expected inflation rate in New York is 2%. Using the given information, answer the following questions :

(a) If IFE holds, what is the expected one-year inflation rate in Frankfurt ?

(b) According to Relative PPP, what is the expected future spot rate ($/€) in one year ? (4)

(iii) The Brazilian real is quoted at 0.9955-1.0076/USD and the Thai baht is quoted at 25.2513-3986/USD. What will be exchange rate between Thai baht and Brazilian real ? (4)

(iv) How currency forward contracts are different from currency future contracts ? (3)

3. (i) If the two companies given below do financial swap then calculate their exchanged payments for three years.

Toyota Motor needs dollar loan (notional amount is $500 million) at fixed rate for 3 three years. Its cost of raising dollar loan at fixed interest rate is 5 percent and Euro loan at flexible rate is LIBOR +2% for 3 years from the International Market.

General Motor needs Euro loan (notional amount is $500 million) at flexible interest rate for 3 years. Its cost of raising dollar loan at fixed rate is 4 percent and Euro loan at flexible rate is LIBOR+3% from the international market for 3 years.

Assume that in the international market exchange rate remains at \$1.1/€, and LIBOR stands at the following rates in the next three years.

1st year 3.5%

2nd year 4.5%

3rd year 5.5% (4)

(ii) You work as an assistant manager in the treasury department. This morning, the managing director informs you that the company has CHF 10,000,000 available for short term investments. He also noted that the following exchange rates are currently available :

Mizuho quote : JPY 125.84/USD

Credit Suisse quote : CHF1.5365/USD

UBS quote : JPY 82/CHF

Required :

The managing director would like to know whether the company could make a profit via triangular arbitrage. Write a report to Managing Director, state your workings with reasons and calculate the amount of profit in CHF. (4)

(iii) Gary Howards works for an international bank in Toronto. He believes the Canadian dollar will appreciate v/s the US dollar over the coming 90 days. The current spot rate is USD 0.92/CSD. Gary may choose between the following options on the Canadian dollar :

Options choices on the Canadian dollar	Call Option	Put Option
Strike Price	USD 0.94/CSD	USD 0.90/CSD
Premium (USD/CSD)	USD 0.0249	USD 0.0003

Required :

(a) Which Option Gary should buy ?

(b) What is the Gary's break even price on the Option purchased ?

(c) What is Gary's net profit/loss if the ending spot rate is USD 0.96/ CSD ? (4)

(iv) What is parallel loan ? Explain with suitable example. (3)

4. (i) XYZ Ltd needs BP 2,00,000 in 180 days. Which hedging techniques should XYZ Ltd use out of (1) Forward Market Hedge (2) Money Market hedge (3) Option hedge (4) No hedge.

Spot rate of BP as of today : \$1.50

180 days forward rate of BP as of today \$1.47

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XYZ Ltd forecasts the future spot rate in 180 days as follow.

Possible rates	Probability
\$1.43	20%
\$1.46	70%
\$1.52	10%

(12)

(ii) Explain the concept of universal banking ? Why is it important in globalized world ? (3)

5. Write short note on **five** of the following : (5×3=15)

(i) Accounting exposure

(ii) International Fisher Effect

(iii) Foreign Exchange Risk

(iv) Deflation of Currency and Outright forward

(v) Speculators and Arbitragers

(vi) Effectiveness of Hedging

(vii) Operating exposure

(viii) Methods of raising funds from the International Market

6. (i) XYZ Corp. imported goods from New Zealand and needs 1,00,000 New Zealand (NZ$) from now. The 180 days forward rate of the NZ$ is USD0.52. The spot rate of the NZ$ is $0.49. XYZ corp. develops the following probability distribution for the exchange rate of NZ$ with US dollar :

Possible values of NZ$ in 180 days	Probability
$0.40	10%
$0.45	20%
$0.53	30%
$0.55	40%

Should the firm go for forward hedging or no hedging ? (4)

(ii) On Monday morning, an investor takes a long position over BP futures contract that matures on Thursday afternoon. The agreed upon price is \$1.78 for BP 62,500. What will be the investor/buyer profit/loss on the mark to marking at the given exchange rates;

Monday \$1.79; Tuesday \$1.80; Wednesday \$1.78; Thursday \$1.75 (4)

(iii) Create the bull spread by using the following options and calculate the profit/loss of investor at the mentioned future spot rates.

A put option over BP10000, exercise price \$1.6/BP, option premium-\$0.2/BP, maturity is 3 months.

A put option over BP10000, exercise price \$2.0/BP, option premium-\$ 0.4/BP, maturity is 3 months.

Future spot price- \$1.0/BP, \$1.8/BP and \$2.4/BP (4)

(iv) How will you analyze the political risk of any country ? (3)