Roll No. **SAP ID**	UPES

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2021

Course: Foreign Exchange Management **Course Code: FINC 2069**
Programme: BCom (LLB) **Semester: III**
Time: 03 hrs. **Max. Marks: 100**

Instructions:
1. Please write your name and enrolment number
2. Use of scientific calculator is allowed

	Part A: Answer ALL questions		
Q1	Write short notes on the following a) London Interbank Offer Rate (LIBOR). b) Euro-Bonds	**2 × 2 = 4 Marks**	**[CO1]**
Q2	Identify the following statements as True or False and give brief one-line reason: a) A Forward rate agreement (FRA) is an agreement to buy/sell forward contracts. b) A eurocurrency is a time deposit of money in an international bank located in a country different from the country that issued the currency. c) In a direct quote, foreign currency is the base currency and home currency is the quote currency.	**2 × 3 = 6 Marks**	**[CO1]**
	Part B: Answer ALL questions		

Q3	Explain how the Eurocurrency markets came into existence. Describe how Eurocurrency Transactions take place.	**5 Marks**	**[CO2]**
Q4	What are the most secure foreign exchange payment methods from the point of view of an importer? Explain in brief.	**5 Marks**	**[CO2]**
Q5	An Indian Company XYZ borrowed $5,000,000 at Libor + 1.5% p.a. rate for 6 months on a 3-month rollover basis. If the current LIBOR rate is 0.16% p.a., what is the amount to be paid after the first 3-months? If the 3-month LIBOR after 3 months is 0.2200% p.a., what will be the payment for the next 3-months to be made at the end of 6-months?	**5 Marks**	**[CO3]**
Q6	Explain conceptually how currency bid and ask rates are used by foreign exchange banks and dealers to earn profit.	**5 marks**	**[CO2]**
	<u>Part C: Answer ALL questions</u>		
Q7	A London bank makes a Eurodollar loan of $55,000,000 for 6-months, rolled over every 3-months. The bank is apprehensive that 3-month LIBOR rate will fall, and the loan will be rolled over to a lower rate. This will make the loan less profitable for the bank. A Forward rate Agreement (FRA) is available with an agreement rate (AR) of 4% per annum. Should the manager of the bank buy the FRA or sell the FRA? If the settlement rate (SR) after 3-months is 3.5%, calculate the profit/loss made by the bank.	**10 Marks**	**[CO4]**
Q8	The following bid-ask quotes are available against Indian Rupee (INR) with a dealer in Mumbai today: Australian Dollar (AUD): INR per AUD = 52.54 - 58.94 UAE Dirham (AED): INR per AED = 18.61 - 21.98 Singapore Dollar (SGD): INR per SGD = 51.16 - 58.78 US Dollar (USD): INR per USD = 72.30 - 76.18 From the above quotations, determine the following: a) Determine the round trip cost (first buy then sell) of SGD with INR 10,00,000. (2 Marks) b) Determine what the dealer desk will pay to a foreigner who brings in USD 50,000 and wants AED in exchange. (3 Marks) c) Determine the implied bid-ask rate of SGD per AUD with above quotes. (3 Marks) d) Based on your answer to part c, determine what the dealer desk will pay to a foreigner who brings in AUD 10,000 and wants SGD in exchange. (2 Marks)	**10 Marks**	**[CO 3]**
	<u>Part D: Answer ALL questions</u>		

Q9	**Short Case**: B-Motors from India is building a new plant in Brazil. A final payment of Brazilian Real (BRL) 18,000,000 is due in 3-months. The manager of B-Motors is worried that BRL value will rise against INR making the payment expensive in rupee terms. A Brazilian bank is offering B-Motors the following exchange rates: Spot Exchange Rate: INR 13.30 per BRL 3-month Forward Exchange Rate: INR 13.45 per BRL The manager asks you, the financial analyst, to get a forecast of BRL rates in 3-months. You obtain the following forecasts: Most probable rate: INR 13.80 per BRL Probable rate: INR 13.50 per BRL Least probable rate: INR 13.15 per BRL Do you recommend hedging with forward contract to your manager? Explain your reasons. Determine the cost of hedging with forward contract. Compare the gain/loss of hedging against all three probable rates.	**25 Marks**	**[CO4]**
Q10	**<u>See Question 10 below:</u>**	**25 Marks**	**[CO4]**

<u>Question 10</u>. **Short Case**: Assume you are the financial analyst of a trading company that imports merchandise from Europe and sells them in India and makes payment at the end of each month. The following forecasted values of Euro (EUR) are provided to you:

Today	½ Months	1 ½ Months	2 Months	3 Months
INR85.60	INR86.80	INR87.20	INR87.90	INR88.10

The following forward quotes for EUR are also provided:

1 – Month forward: Rs.86.95
2 – Month forward: Rs.87.35
3 – Month forward: Rs.87.80

Answer the following questions:

a) What is the risk to your firm if the EUR value appreciates or depreciates 3-months hence. (5 Marks)
b) Assuming that your firm has to make a payment of EUR 1,500,000 in 1-month, formulate a strategy to use the forward contract to hedge the risk of increase in EUR rates. What will be the outcome of hedge if EUR = INR 87.05 after 1-month? (8 Marks)
c) What strategy will you use if the firm has a payable of EUR 500,000 in 3-months and what would be the outcome of the strategy if given forecasts are accurate? (6 Marks)
d) Explain in brief the probable benefits and disadvantages of using a forward contract hedge vs. not hedging your positions. (6 Marks)