Name:

Enrolment No:

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2018

Course: International Financial Management **Semester: III**
Programme: MBA (International Business) **Code: FINC 8001**
Time: 03 hrs. **Max. Marks: 100**
Instructions:

SECTION A

S. No.	Attempt all questions	**Marks**	**CO**
Q1	What is the difference between Arbitrage and Hedging?	**2**	**CO2**
Q2	Distinguish between foreign exchange exposure and foreign exchange risk	**2**	**CO2**
Q3	Distinguish between currency depreciation and currency devaluation.	**2**	**CO2**
Q4	Relationship between exchange rate and inflation rate is referred to as: a) Interest rate parity b) Purchasing power Parity c) Exchange power parity d) None of the above	**2**	**CO1**
Q5	Forward exchange rate is the rate of exchange between two currencies a) Prevailing today for future delivery b) Would prevail at a future date c) Prevailing today for immediate delivery d) None of the above	**2**	**CO3**
Q6	What is Put-Call Parity?	**2**	**CO1**
Q7	What are the determinants of currency option premium	**2**	**CO1**
Q8	Arbitrage is a strategy of taking advantage of ______ between two markets. (a) Price differential (b) theoretical prices (c) Interest rate differential (d) timing	**2**	**CO1**
Q9	Explain the concept of balance of payment.	**2**	**CO1**

Q10	38 Futures contracts are attractive for market participants as compared to OTC contracts because futures contracts have ________. (a) a settlement guarantee mechanism. (b) a greater money making potential (c) zero risk (d) minimum volatility	**2**	**CO1,2**
	SECTION B		
S.No.	Attempt any four questions		
Q 1	Using suitable examples, distinguish between direct rate, an indirect rate and a cross rate.	**5**	**CO1,2**
Q2	What is the difference between fixed and flexible exchange rate system?	**5**	**CO2**
Q3.	What are the main component accounts of the current account. Give one debit and one credit example for each component.	**5**	**CO2**
Q4.	If the price of the British Pound is USD 1.92, the annual interest rate is 4% in the US and 6% in the UK. What should be the price of a 90-day futures contract?	**5**	**CO1,2**
Q5.	Explain how currency forwards can be used to hedge the risk in foreign exchange deals	**5**	**CO3**
	SECTION-C		
S.No.	Attempt all questions		
Q1	. What is foreign exchange market? What are the functions of forex market? Who are the participants of forex market	**10**	**CO4**
Q2	A 2-month call option on an asset with strike price of Rs 2,100 is selling for Rs 140 when the share is trading at Rs 2,200. Find out the following: i) What is the intrinsic worth of the call option? ii) Why should one buy the call for a price in excess of intrinsic worth? iii) Under what circumstances the option holder would exercise his call? iv) At what price of the asset the call option holder would break even?	**10**	**CO3**

	v) If the price of the asset becomes Rs 2,150, should the option holder exercise the call option? vi) What is the profit/loss of the holder and writer if the price of the asset is Rs 2,000, Rs 2,250 and Rs 2,500 on the date of expiry of the option?		
Q3.	Discuss covered interest arbitrage and uncovered interest arbitrage. What is the difference between these two transactions?	**10**	**CO1**
	SECTION-D		
S.No.	Attempt any two questions		
Q1.	Q2. Consider the following data for a certain share. Current Price = S = Rs. 80 Exercise Price = X = Rs. 90 Standard deviation of continuously compounded annual return = σ = 0.5 Expiration period of the call option = 3 months Risk – free interest rate per annum = 6 percent What is the value of the call option?	**15**	**CO2,3**
Q2.	Q2. Company P and Company Q have equal requirement of funds of Rs 50 crore each. They have been offered following rates in the fixed and floating rate markets for debt — Fixed Rate — Floating Rate Company P — 10% — MIBOR+50bps Company Q — 12% — MIBOR+150bps Company P wants funds at floating rate while Company Q is happy to raise funds at fixed rate basis. A bank is willing to act as intermediary with 20 bps as its remuneration. Depict a swap sharing the gains of swap equally and find out the cost of funds for Company P and Company Q. What would be the saving in financing cost of each firm?	**15**	**CO3**
Q3.	Differentiate between the following termrs: i) Absolute and Relative Purchasing power parity ii) Fisher Effect and International Fisher Effect	**15**	**CO1,2**