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IV Semester M.Com. Degree Examination, August/September - 2025

COMMERCE

Finance and Banking Specialization Forex Management

(CBCS Scheme)

Paper : 4.3(Elective)

Time : 3 Hours

Maximum Marks : 70

SECTION - A

Answer any Seven sub-questions out of ten. Each question carries 2 marks. $7 \times 2 = 14$

1. a) ✓ What is meant by exchange rate volatility?
- b) ✓ Who are the major participants in the foreign exchange market?
- c) ✓ Name any two methods of forecasting forex rates.
- d) ✓ Mention any two adverse effect of exchange rate volatility on BOP.
- e) Define cross rate in forex.
- f) ✓ How is bid rate different from ask rate?
- g) Define Eurodollars.
- h) ✓ Name any two types of costs associated with international payments.
- i) What is the strike price in an options contract?
- j) ✓ What is meant by currency arbitrage?



SECTION - B

Answer any Four questions out of six. Each question carries 5 marks. $(4 \times 5 = 20)$

2. ✓ Differentiate between Fixed Exchange Rate system and Flexible exchange rate system with examples.
3. ✓ What is the law of One price? How is it related to foreign exchange rate determination?
4. ✓ Explain the concept of the bid-ask spread.
5. Explain how transaction costs and exchange rate margins impact international trade payments.
6. ✓ How can the forward market be used to hedge foreign exchange risk? Give an example.

[P.T.O.]





7. You are provided with the following foreign exchange market information:

In the Indian forex market, the exchange rate is quoted as: USD 1 = Rs.83.10/Rs.83.50 In the New York market, the exchange rate is quoted as : INR 100 = USD 1.2,000

- Identify which of the above is a **direct quote** and which is an **indirect quote** from the point of view of an Indian resident.
- If an Indian **importer** wants to purchase USD 10,000 to make a payment, how much will he have to pay in INR?
- If an Indian **exporter** receives USD 10,000 and wants to convert it into INR, how much will he receive?

SECTION - C

Answer any Two questions out of four. Each question carries 12 marks. (2×12=24)

- Explain the various types of foreign exchange risks faced by international businesses. How can these risks be managed?
- Evaluate the significance of internal and external hedging strategies. Compare their advantages and limitations in managing currency risk.
- Explain the concept of a Basket of currencies. How is it used in exchange rate management? Give examples from India's currency management policies.
- The treasurer of Kaveri Electronics Ltd. (India) wants to determine whether the 3-month USD/INR currency futures quoted on NSE-CDS are fairly priced. The following market information is available at 10.00 am. today (Valuation date):

Item	Symbol	Value
Spot exchange rate	S_0	Rs.82.60per USD
Annualised domestic risk-free rate(India)	r_d	6.40% p.a
Annualised foreign risk-free rate (U.S)	r_f	4.10% p.a.
Time to futures expiration	T	3 months
Quoted 3 - month USD/INR futures price	Fmkt	Rs.83.68 per USD
Contract size on NSE-CDS	Q	USD1,000
Transaction & financing costs	-	Negligible

Using the cost - of - carry/interest-rate parity formula with continuous compounding, calculate the no-arbitrage futures price for the 3 - month contract.



SECTION - D

(1×12=12)

12. Answer the following question.

A large Indian pharmaceutical company expects to make a USD payment to its U.S. supplier after 4 months. Concerned that the rupee might depreciate against the dollar, the treasurer is considering purchasing a European call option on USD/INR (i.e., the right to buy U.S. dollars with Indian rupees)

The following market information is available on the valuation date:

Item	Symbol	Value
Current spot exchange rate	S_0	Rs.82.40per USD
Exercise (strike) price	K	Rs.83.75 per USD
Time to expiration	T	4 months
Annualised volatility of USD/INR	σ	17%
Indian risk-free rate (domestic)	r_d	6.20% p.a.
U.S. Treasury rate (foreign)	r_f	4.10% p.a.
Day-count basis	360	Used for all rates

- Calculate the price of the **currency call option** using the Black-Scholes formula.
- Comment on whether the option is in the money, at the money, or out of the money.