



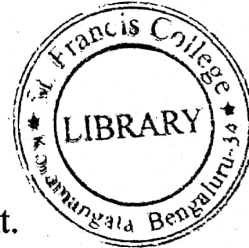
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IV Semester M.Com. Degree Examination, September/October - 2024**FINANCIAL ANALYSIS****Forex and Risk Management****(CBCS Scheme)****Paper : 4.3****Time : 3 Hours****Maximum Marks : 70****SECTION - A****Answer any Seven Sub-questions out of ten . Each question carries Two marks.****(7×2=14)**

1. a) Give one benefit and one drawback of fixed exchange rates.
- b) Name two primary causes of fluctuations in foreign exchange rates.
- c) What is the Asset Market Model?
- d) Name two remedial measures taken by the Indian government to manage exchange rates.
- e) What are the key components of forex trading infrastructure?
- f) What is a stop-loss order in forex trading?
- g) What does LERMS stand for?
- h) Name two features of Eurocurrency Markets.
- i) Define translation exposure.
- j) List two key features of forex risk management.

**SECTION - B****Answer any Four questions out of Six . Each question carries Five marks. (4×5=20)**

2. Explain the key features of the Gold Standard.
3. Explain the purchasing power parity theory.
4. Explain the Law of One Price in the context of exchange rates.
5. Differentiate between direct and indirect quotes in foreign exchange.
6. What is SWIFT? Explain its importance in international banking.
7. How can hedging with money markets be used to manage forex risk, and what are the potential challenges involved?

[P.T.O.]

**SECTION - C**

Answer any Two questions out of Four. Each question carries Twelve marks.

(2×12=24)

8. "Is a floating rate system more inflationary than a fixed -rate system"? Explain.
9. Briefly discuss the three kinds of Exposures. Give examples to illustrate each.
10. In a free-market, what factors influence exchange rates? Which of them apply mainly to long-run exchange rate behaviour and which to short-run exchange behaviour?
11. Ford Motor India uses parts made by Ford USA and pays USD 250,000 every month for parts purchased from the USA. Since the cash flow for Ford Motor India is in Indian rupees, Ford Motor would like to hedge the exchange rate risk by entering into USD-INR futures contract traded on the NSE. On March 1, the exchange rate is USD 1 = INR 47.3548. The interest rate in the USA is 4.5% , and the interest rate in India is 9%. What would be the futures price of the March USD-INR futures expiring on March 27?

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SECTION - D**Compulsory Question**

(1×12=12)

12. Case Study

The current exchange rate is USD 1 = INR 48. The current risk-free interest rate in India is 8% , while the interest rate in the USA is 6%. A bank is willing to write a put option on the U.S. dollar with an exercise price of INR 47.20 and an expiry of 30 days. The volatility of the exchange rate is estimated as 18%. What would be the amount of premium for a contract to sell USD 100,000 after 30 days?
