MAY 2012 **P/ID 77558/PMBN2**

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. What do you mean by foreign exchange market? Briefly explain.

2. Briefly explain the spot rates.

3. What are the different types of orders?

4. Distinguish between translation exposure and transaction exposure.

5. Explain the impact of exchange rate in brief.

6. What is bid-ask spread? How it is computed?

7. Explain in brief PPP theory.

8. Briefly explain the role of clearing house.

PART B — ($5 \times 10 = 50$ marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Explain the determination of exchange rate in the spot market.

10. Examine the different theories of exchange rate determination.

11. Explain the different types of options in detail.

12. Explain the consolidated net transaction exposure.

13. Explain the need for exchange control measures.

14. Explain the plain-interest rate swap with a suitable example.

15. How do you hedge real operating exposure?

16. Explain with suitable examples of hedging a forward market.

PART C — (1 × 20 = 20 marks)

Compulsory question.

17. The spot exchange rate between Indian rupee and Vs dollar in 1995 was Rs. 30/US $ when the price Index in both the countries was 100. By 2000 rupee depreciated to 45/US dollar and at the same time, the price index moved up during this period in India and USA to 110 and 125 respectively. Find out the extent of change in nominal and real exchange rates.