

MAY 2013

P/ID 77558/PMBN2

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Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Distinguish between option forward swap and forward- forward swap.
2. What are the problem while forecasting exchange rate?
3. What is forecast error?
4. What do you mean by consolidated net transactions exposure?
5. Bring out the importance of NOSTRO.
6. How do you compute the forward rate differential?
7. Explain normal and each exchange rates.
8. What are the types of options?

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Explain the role of participants in foreign exchange market.
10. Explain the PPP theory in detail.
11. Explain the concept of nominal, real and effective exchange rate.
12. Do the different methods of translation arrive at different sizes of translation exposure? Explain.
13. Explain the impact on exchange Rate.
14. Explain a currency swap with a suitable example.
15. What are the techniques adopted for the natural hedge?
16. Explain the different types of exposure.

PART C — (1 × 20 = 20 marks)

Compulsory question.

17. A US importer importing goods for pound 62, 500 feers an appreciation of pound. He likes to hedge the risk through options. Options are available to him at two different strike rates. One is US\$ 1.60/£ and the other is US\$ 1.70£. The premium in both the case in US\$ 0.03£ . If the spot rate on the maturity goes up to US 1.65/£, what will be his course of action?
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