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Time : Three hours   Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. What do you mean by foreign exchange market?

2. Briefly explain the spot rates.

3. Give a note on Interest rate swaps.

4. What are the methods by which a bank may quote the rate of exchange?

5. What are the merits and demerits of convertibility?

6. Brief the impact of exchange rate.

7. Brief the composition of Foreign Exchange Reserve of India.

8. State the role of clearing house.

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PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. Highlight the advantages and disadvantages of stable exchange rates. If exchange rates fluctuate should Central Bank intervene, why or why not?

10. What are the major facilities influencing the exchange rate?

11. Discuss the features of Currency futures. Why should a person invest in them?

12. Examine the different theories of exchange rate determination.

13. Discuss the method of hedging real operating exposure?

14. Discuss the various objectives and activities of exchange control in India.

15. Explain the various factors influencing translation gains or losses.

16. Discuss the Monetary and Fiscal policy initiatives for Exchange rate management.

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PART C — (1 × 20 = 20 marks)

Compulsory.

17. Consider a euro-area exporter who regularly receives orders for sales denominated in US dollar. As the time between the order and final delivery (payment) is several years, the exporter "locks in" the EUR-USD exchange rate using exchange-rate forwards each time an order is firmly committed. However, the forward exchange rate varies over time (it-is a function of the spot rate and the interest rate differential between the euro area and the US). Therefore, the value in euro of equivalent hedged US dollar sales differs depending on the forward rate at which the transaction was hedged. In the case of a prolonged appreciation of the euro against the US dollar (assuming a constant interest-rate differential), the exporter thus has to accept less favourable forward rates for its exchange rate hedges, cutting into its profit margin. Considering the above situation, discuss the limitations of derivative hedges when it comes to economic risk and also explain the ways of reducing exchange rate exposure.

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