



BRAINWARE UNIVERSITY

Course – M.Com.

Treasury and Risk Management (MCM301)

(Semester – 3)

Time allotted: 3 Hours

Full Marks : 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group –A

(Multiple Choice Type Question)

1) Choose the correct alternatives for the following:

1 x 10 = 10

i) Bid rate is

- a) less than ask rate b) less than ask rate
c) Equal with ask rate d) all are possible.

ii) Cross rate is used

- a) to get rate for infrequent transactions b) to arbitrage
c) both (a) and (b) d) neither (a) nor (b)

iii) In quotation Rs 55.6426/\$ the pip is

- a) 0.0026 b) 0.6400
c) 0.6426 d) 55.0000

iv) Premium/discount calculated in Forward contract is-

- a) $[(\text{Forward Rate}-\text{Spot rate}) \times 12 \times 100] / \text{Spot rate}$ b) $[(\text{Spot Rate}-\text{Forward rate}) \times 12 \times 100] / \text{Spot rate}$
c) $\text{Forward Rate} \times 100 / \text{Spot rate}$ d) $\text{Spot rate} \times 100 / \text{Forward rate}$

v) In export no exchange risk exists if

- a) receipt will be in domestic currency b) receipt in foreign currency
c) both a and b d) none of a and b

- vi) international trade is possible if
- a) law of comparative cost is true b) law of absolute cost is true
 c) both a and b d) none of these
- vii) If spot rate (Rs per Euro) is 58.5800-58.6000. Swap point is 700/500. Forward bid rate is
- a) 58.51 b) 58.53
 c) 58.65 d) 58.63
- viii) A FRA to take 18 months loan after 3 months is
- a) 3 x 21 FRA b) 3 x 18 FRA
 c) 0 x 18 FRA d) 0 x 21 FRA
- ix) Margin is compulsory in
- a) Forward contract b) Futures
 c) options d) All of them
- x) Advantage of option in comparison with futures is-
- a) no obligations b) no right
 c) can be hedged d) can be speculated

Group – B

(Short Answer Type Question)

Answer any three questions

3 x 5 = 15

- 2) If Rs. Per US \$ is 44.75/45.20 and second rate is Rs. per Euro 57.50/58.25, then explain whether a cross rate calculation is possible or not? If so then calculate US \$ per Euro. [2+3]
- 3) Explain in the money, out of the money and at the money situations in option with examples? Under what situation, option right will be executed? [3+2]
- 4) What is Bid rate and Ask rate. Define spread of bank and calculate it. given Rs per US\$: 45.00/45.50. [2+3]
- 5) How exchange rates are determined in foreign market? Explain in brief. [2+3]
- 6) What is FRA? What are the different dates in connection with FRA? Explain them. [2+3]

Group – C

(Long Answer Type Question)

Answer any three questions

3 x 15 = 45

7) On 15th March A British firm has received documents under letter of credit for a payable of US\$ 3 million in three month's time due on 15th June. The spot exchange rate in London is US\$ 1.6050 per pound. 3 month forward rate is 1.5900. In futures market, June futures maturing on 24th June are quoted at 1.5940. Answer the following

a) What do the forward and future rates indicate for exchange rate of dollar?

b) How would the British importer hedge his payable in the futures market?

c) The spot rate and futures rate on 15th June are 1.6450 and 1.6475 respectively. When the importer pays his liability, what gain/loss would he make in the futures hedge? Also work out the effective exchange rate the importer pays when he hedges in the futures market.

d) Compare the futures hedge with forward hedge. [2+3+5+5]

8) What is law of absolute advantage and law of comparative advantage? Explain them by example. How these theories are used in international trade? [5+5+5]

9) a) Interest rate in Mexico is 12% and in India is 6%. Spot exchange rate is Rs. 4 per Peso. What is forward rate after one year.

b) Suppose a person has entered into Forward buy contract. Current spot is Rs. 3.6257 per Peso. Will he gain or loss. If volume is to buy 100,000 Peso, who will pay how much to whom?

[7+8]

10) An Indian exporter is expecting to receive US\$ 10,000 after three months. Worried about the depreciation of the dollar against the Indian rupee, he needs to hedge his receivables. Given the following data, what alternatives are available to the exporter?

Exchange rate	Interest rate		
(Rs \$) 40.60 40.80	Rs	13.00%	13.50%
3-m swap 40 60	\$	5.75%	6.00%

11) What is translation exposure? Explain methods available for translating financial statements? When translation loss will occur? [5+5+5]