



PJ – 547

III Semester M.Com. (FA) Examination, January 2019  
(CBCS, Semester Scheme)  
**FINANCE AND ACCOUNTING**  
Paper – 3.3 : Forex and Derivatives

Time : 3 Hours

Max. Marks : 70

**Instruction :** Tables  $A_1$  and  $A_2$  to be provided for question No. 11.

SECTION – A

Answer any seven questions. Each question carries 2 marks. (7×2=14)

1. a) Define swap.
- b) What is speculation ?
- c) Distinguish between arbitrage and hedger.
- d) What is a financial derivative ?
- e) What is bid-ask spreads ?
- f) What is hedging strategy ?
- g) What is economic exposure ?
- h) What is arbitrage ?
- i) What is credit derivatives ?
- j) What is plain Vanilla Swap ?

SECTION – B

Answer any four questions. Each question carries 5 marks. (4×5=20)

2. Explain the types of exposures in forex market.
3. Following are the cash flows in a foreign currency of M/S XYZ Ltd. An Indian exporting company which has no foreign subsidiaries but a significant portion of its sales are from exports.

Currency	Inflows	Outflows	Spot rate	Forward rate
			Rs.	Rs.
USD \$	\$ 42,000,000	\$ 20,000,000	42.50	43.20
F. Fr.	ffr 10,000,000	ffr 80,000,000	6.60	6.00
U.K. £	£ 24,000,000	£ 15,000,000	66.90	67.10
German mark (DM)	DM 5,000,000	DM 10,000,000	22.50	23.25

Determine the net exposure of each currency in terms of rupees.

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4. Convert the following rates into outright rate and indicate their spreads.

Currency	Spot	1 month	3 months	6 months
Rs./s	43.6300/25	20/25	25/35	30/40

5. Explain the differences between forward and futures contract.
6. Describe the factors contributing to the growth of financial derivatives.
7. Given the following data :

Spot rate : Rs. 35.0020 = \$1

6 months forward rate : Rs. 35.90101 = \$1

Annualised interest rate on 6 months rupee : 12%

Annualised interest rate on 6 months dollar : 7%

Work out arbitrage possibilities.

#### SECTION – C

Answer **any three** questions. **Each** question carries **12** marks. (3×12=36)

8. Write detailed structure of Forward Rate Agreements (FRA).
9. A UK based exporting company has export receivables of US \$ 3,50,000 in USD/ £ 1.6584 – 1.6626.

3 months forward rate – USD/£ 1.7100 – 1.7400

Rates of interest in money market.

	Deposit	Loan
USD	7%	9%
£	5%	8%

Compute and show how money market hedge can be used. Compare and contrast the outcome of the forward contract.



10. Explain the classification of derivatives.
11. Consider the following information with regard to a call option on the stocks of PQR Ltd.

Current market price (SC)	Rs. 225
Exercise price E	Rs. 215
Time period to expiration	6 months
Standard deviation ( $\sigma$ )	0.70
Continuously compounded risk free interest rate ( $R_f$ )	0.10

Find the value of call option using Black and Scholer model.

12. Discuss tools and techniques of foreign exchange risk management.
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