**NMIMS Global Access**

**School for Continuing Education (NGA-SCE)**

**Course: International Finance**

**Internal Assignment Applicable for September 2020 Examination**

**1. 1. You are given the following interest rates.**

**TABLE BELOW**

|  |  |  |  |
| --- | --- | --- | --- |
| **Rs.** | | **$** | |
| **3- months** | **12%** | | **6%** |
| **6-month** | **11.5%** | | **5.5%** |
| **9-month** | **11%** | | **5.0%** |

**The 3-month forward rate is Rs. 75/$. Calculate the 3-month forward rate 6-months from now.**

**Ans:**

**INTRODUCTION;**

A forward rate is an interest rate applicable to a financial transaction that will take place in the future. Forward rates are calculated from the spot rate and are adjusted for the cost of carry to determine the future interest rate that equates the total return of a longer-term investment with a strategy of rolling over a shorter-term investment.Forward rate agreements (FRA) are over-the-counter contracts between parties that determine the rate of interest to be paid on an agreed upon date in the future. An FRA is an agreement to exchange an interest rate commitment on a notional amount.The FRA determines the rates to be used along with the

**2. Suppose that the exchange rate for U.S. $1 for another currency is such that U.S. $1 = 3.5 ARS (Argentine pesos). Further suppose that if the exchange rate remains the same, you will receive a 25% return on your investment in ARS currency over the next year’s period. As an investor, you are aware of the volatility in Argentina’s currency exchange so sudden movements are expected.**

**If the exchange rate were to change such that $1 = 50 ARS, what return do you expect on the investment? If the exchange rate were to change such that $1 = 2 ARS, what return do you expect on the investment?**

**Ans:**

**INTRODUCTION:**

In finance, an exchange rate is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in relation to another currency. For example, an interbank exchange rate of 114 Japanese yen to the United States dollar means that ¥114 will be exchanged for each US$1 or that US$1 will be exchanged for each ¥114. In this case it is said that the price of a dollar in relation to yen is ¥114, or equivalently that the Its sample only

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Contact no is +91 87-55555-879.

**3a. Groucho Marx, as Governor of Freedonia’s central bank, has problems. He sees the value of his currency, the FDK, under constant attack from Rosor, a wealthy mutual-fund manager.**

**Apparently, Rosor believes that the FDK will soon devalue from GBP 1.000 to 0.950.**

**a. Currently, both GBP and FDK interest rates are 6% p.a. By how much should Groucho change the one-year interest rate so as to stabilize the spot rate even if Rosor expects a spot rate of 0.950 in one year? Ignore the risk premium—that is, take 0.950 to be the**

**certainty equivalent.**

**Ans:**

**INTRODUCTION:**

The British pound sterling is referred to as the GBP. It is the official currency in the United Kingdom and its territories of South Georgia, British Antarctic Territory, South Sandwich Islands, the Isle of Man, and the Channel Islands. It is one of the major currencies of the world and is closely followed by traders around the globe. Zimbabwe, an African country, is an independent country which uses GBP as an official currency along with Zimbabwean Dollar. There are a lot of currencies that are attached to GBP. A few of them are

**3b. If the interest-rate hike also affects Rosor’s expectations about the future spot rate, in which direction would this be? Taking into account also this second-round effect, would Groucho have to increase the rate by more than your first calculation, or by less?**

**(5 Marks)**

**\*\*\*\*\*\*\*\*\*\***

**Ans:**

**INTRODUCTION:**

Interest, in finance and economics, is payment from a borrower or deposit-taking financial institution to a lender or depositor of an amount above repayment of the principal sum (that is, the amount borrowed), at a particular rate. It is distinct from a fee which the borrower may pay the lender or some third party. It is also distinct from dividend which is paid by a