**International Banking & Foreign Exchange Management**

**December 2021 Examination**

**1. ABC Limited, an Indian Company has an export exposure of 10 million Yen. Yen is not directly quoted against the Rupee. The current spot rates are USD/INR = 41.79 and USD/JPY =129.75. It is estimated that Yen will depreciate to 144 level and Rupee to depreciate against Dollar to 43. The Forward rate for September 2020 USD/YEN = 137.35 and USD/INR 42.89. Given that the actual spot rate on 30 September 2020 was USD/YEN = 137.85 and USD/INR = 42.78, is the decision to take forward cover justified in hindsight? (10 Marks)**

**Ans 1.**

**Introduction:**

Foreign currency transactions are continually problem to fluctuations within the exchange charge of the forex. These fluctuations may cause transaction publicity or translation publicity. Transaction publicity affects the corporation's cash flow, while translation exposure impacts the valuation of assets and liabilities. Coping with transaction exposure must be prioritized over translation exposure in view that they contain actual coins flows. Then again, translation exposure affects the occasion of the disposal of property. A translation exposure can be hedged Its Half solved only

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**2. Identify which party is playing what role in the following Letter of Credit transaction. ABC Limited wants to import raw material from Z123 Limited, a supplier in Germany who banks with T.R.V. Bank. The supplier insists that ABC Limited issue a Letter of Credit for the full value of the transaction. A tenure of 90 days is agreed upon. ABC Limited approaches N.O.P. Bank to issue a Letter of Credit. You are required to identify the steps involved in a Letter of Credit transaction. Also Identify which party is playing the role of**

** Issuing Bank**

** Beneficiary**

** Applicant**

** Beneficiary Bank (10 Marks)**

**Ans 2.**

**Introduction:**

A letter of credit or an LC may be described as a file issued by way of a bank on behalf of an applicant, being a purchaser, who undertakes to pay a particular amount of money inside a special time limit and against stipulated documents, to the beneficiary, being the vendor. The bank issuing the Letter of credit is referred to as the issuing bank, and the financial institution receiving the L/C is referred to as the advising financial institution.

**3. The prevailing market rates are as follows.**

**INR/USD = Rs. 77.00**

**Interest rate for a 6 month loan in India = 12% per annum**

**Interest rate for a 6 month loan in USA = 6% per annum**

**a. Explain the concept of Interest Rate Parity. What will be the expected 6 -months forward rate for US dollar in India? (5 Marks)**

**Ans 3a.**

**Introduction:**

In keeping with the hypothesis of interest price parity (IRP), the difference between the interest costs in two great countries is equal to the difference between the ahead change rate and the spot alternate price of the nations' forex. Interest rate parity (IRP) is a critical concept in worldwide

**b. Compute the Forward premium/discount of USD/INR in the Indian Forex Market? (5 Marks)**

**Ans 3b.**

**Introduction**

When the forward price of change exceeds the spot rate of change, it's miles called forward premium. Conversely, while the alternate's ahead rate is decreased than the spot rate of replacement, its miles called forth discount. Beforehand top class or cut-price is expressed in