**International Finance**

# April 2022 Examination

**Q1. The changing global economic environment and a number of market related factors cause the exchange rates to fluctuate constantly. This poses a challenge to the MNCs operations in multiple countries in terms of foreign exchange risk. Describe what your understanding of forex risk is. How can you classify the different forex risks? Give an example for each classification of the forex risk (10 Marks)**

**Answer 1.**

**Introduction:**

**Foreign exchange:**Foreign exchange, forex, or FX approach trading forex into every other foreign currency. The area where this transaction or trading of overseas currency takes area is referred to as the forex market. The forex market is the leading liquid marketplace without a centralized area. It s an electronic community of institutions, agents, character traders, and banks who help in the exchange or trade of foreign currency

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**Q2. Suppose that you are a manufacturer of textiles and you are planning to expand your business by capturing the export markets in Europe and African regions. In terms of operational issues relating to the carriage and delivery of goods, you are ought to be aware of various trade practices followed in different countries. In this regard, explain various INCOTERMS published by International Chamber of Commerce that make it easier for a common interpretation. (10 Marks)**

**Answer 2.**

**Introduction:**

**ICC (International Chamber of commerce):** ICC, or worldwide Chamber of trade, is the world's most prominent business organization created to sell global investment and alternate. The first set of Incoterms was published with the aid of ICC in 1936 and is updated after every ten years. The most latest updated and brought incoterms have been within the year 2020. The global Chamber of commerce is accountable for preserving the world's alternate business enterprise and

**Q3. A trader collects the below information to devise his forex management strategy during the next year:**

**Spot Rate of USD: INR 74.40**

**Interest rates in USA: 2.5%**

**Interest rates in India: 6.5%**

**a. What is Interest Rate Parity Theory? What will be the expected exchange rate in the above case, if the interest rate parity theory is assumed to hold good. Also calculate the forward premium or discount. (5 Marks)**

**Answer 3a.**

**Introduction:**

**Interest Rate Parity Theory:**Its miles an idea was linking the foreign exchange market charge and the interest costs of a financial system. It also states that if the currencies of that economic system are in equilibrium, one cannot simply change cash to advantage profit by taking advantage of this possibility.

**Qb. What is covered interest arbitrage? If there is a one-year forward contract available at INR 75.60, is there a CIA possible, and if yes, write the steps to earn arbitrage profit (use an equivalent amount of INR 1000000) (5 Marks)**

**Answer 3b.**

**Introduction:**

**Covered interest Arbitrage:** A method under which an investor hedges towards the change charge risk using a forward settlement is covered hobby arbitrage. In this exercise, investors use the favorable interest charge differentials to invest in excessive-yield foreign money. Then they hedge the alternate threat the usage of the forward currency contract.