**International Banking & Foreign Exchange Management**

**April 2022 Examination**

**Q1. A Inc. and B Inc. intend to borrow $200,000 and $200,000 in ¥ respectively for a time horizon of one year. The prevalent interest rates are as follows:**

**Company ¥ Loan $ Loan**

**A Inc 5% 9%**

**B Inc 8% 10%**

**The prevalent exchange rate is $1 = ¥120.**

**They entered in a currency swap under which it is agreed that B Inc will pay A Inc @ 1% over the ¥ Loan interest rate which the later will have to pay as a result of the agreed currency swap whereas A Inc will reimburse interest to B Inc only to the extent of 9%. Compute the opportunity gain or loss arising out of this currency swap transaction. (10 Marks)**

**Ans 1.**

**Introduction**

Companies need to go into various arrangements while elevating finance, sporting out foreign exchange transactions, and other varieties of regular business dealings. Those styles of transactions bring inherent risks in the shape of increasing interest fees, foreign exchange charges, etc. On these occasions, derivatives function as a treasured tool in managing and mitigating dangers. Derivatives may be of many forms, including forwarding contracts for interest rates, forward contracts for currency exchange, interest price futures, interest rate swaps, Its Half solved only

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**Q2. On 30th June 2021 when a forward contract matured for execution you are asked by an importer customer to extend the validity of the forward sale contract for US$ 100,000 for a further period of three months.**

**Contracted Rate US$1 = Rs.71.87**

**The US Dollar quoted on 30.6.21**

**Spot Rs. 70.4800/Rs. 70.4900**

**Premium July 0.1100/0.1300**

**Premium August 0.2300/0.2500**

**Premium September 0.3500/0.3750**

**Calculate the cost for your customer in respect of the extension of the forward contract.**

**Rupee values to be rounded off to the nearest Rupee.**

**Margin 0.080% for Buying Rate**

**Margin 0.25% for Selling Rate**

**Ans 2.**

**Introduction**

Forward contracts are contracts entered using corporations with banks or exchanges for sporting out a specific transaction at an agreed fee on a future date. Those are much like every other settlement with the distinction that the settlement will be executed on a destiny date with expenses agreed among events in advance. These are the top primary shape of a derivative tool; those contracts are entered to hedge the danger of immoderate outflow or decrease inflow to the party. Outflows may be interest bills on borrowings, the Price of overseas vendors in foreign

**Q3. The US dollar is selling in India at Rs.75.50. If the interest rate for a 6months borrowing in India is 12% per annum and the corresponding rate in USA is 6%.**

**a. Do you expect that US dollar will be at a premium or at discount in the Indian Forex Market? (5 Marks)**

**Ans 3a.**

**Introduction**

When one currency is traded for another foreign currency, it is called foreign exchange. The marketplace where currencies are traded as commodities is a foreign exchange marketplace. The worth of forex depends on that country's economic role.

**b. What will be the expected 6-months forward rate and premium/discount for US dollar in India? (5 Marks)**

**Ans 3(b).**

**Introduction**

Forward costs are the rates prevailing on a destiny date in the market. Calculation of exact forward quotes cannot be achieved as there's no concept of destiny determination, but theoretical forward quotes can be calculated based on distinctive market factors; these could be interest