**International Banking & Foreign Exchange Management**

**June 2023 Examination**

**Q 1) You are an intern with XYZ Indian bank. You are supposed to submit a report on different methods used for managing foreign exchange risk, including currency hedging. Explain the role of the foreign exchange market and how it operates. (10 Marks)**

**Ans 1.**

**Introduction**

The foreign exchange market, additionally known as FX, forex, or the currencies market, is over a counter-international marketplace that sets the trade charge for currencies worldwide. Individuals in those markets can promote, buy, speculate, and exchange at the relative exchange rates of various forex pairs.

Foreign exchange markets contain forex dealers, banks, commercial firms, funding control corporations, vital banks, retail forex dealers, hedge funds, and buyers.

The forex marketplace, also called FX, foreign exchange, or forex market, became one of the

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**Q 2) As per the recent news, global inflation index is rising. Discuss the impact of interest rates and inflation on the foreign exchange market. (10 Marks)**

**Ans 2.**

**Introduction**

Inflation occurs when the cash in circulation exceeds the production of offerings and commodities.

Inflation occurs when the money in movement exceeds the production of commodities and services.

In inflationary surroundings, the buying power of cash falls, and the charges of services and commodities upward thrusts.

Due to the exceptional stress of inflationary value increases in most nations in recent decades,

**Q3) You are a faculty of Foreign exchange management and your students are discussing an article on exchange rate systems and their impact on international borrowing.**

**A. You are supposed to acquaint your students with fixed exchange rate system and floating exchange rate system. (5 Marks)**

**Ans 3a.**

**Introduction**

A fixed exchange charge can be described as a regime carried out using a critical bank or a central authority that ties the nation's official foreign exchange rate to any other nation's currency or the charge of gold. A set change fee gadget is used to keep foreign money's value within a lesser

**B. Also elaborate the difference between a spot transaction and a forward transaction in the foreign exchange market to your students, for a deeper understanding of exchange rate transactions. (5 Marks)**

**Ans 3b.**

**Introduction**

All the clearing, settlement, and trading approaches occur concurrently in a gap transaction. It takes location on the spot, called the 'spot' marketplace.

For instance, Aman desires to buy gold, and the vendor asks him Rs. 25000 per 10 grams. They agreed on this quoted fee, and