

Vidya Vikas Mandal's

Shree Damodar College of Commerce & Economics, Margao-Goa

TY BBA(FS), Semester VI : (Repeat) Semester End Assessment November 2022

Course Code: BFS DSEC 7 Course Title: Foreign Exchange Management

Duration: 2 hours

Max. Marks: 60

Instructions:

- 1) Start each question on a fresh page.
- 2) Q.1. is compulsory.
- 3) The figures to the right indicate maximum marks.

Q. 1. Write short notes on ANY FIVE from the following:

(05x04=20 Marks)

1. Three most common foreign currency accounts.
2. Balance of Trade (BoT).
3. Pegged Exchange Rate.
4. 'Inflation' as the prime factor influencing forex rates.
5. Cross Rates in Forex Market.
6. Direct Quotation.

Q. 2. Answer ANY ONE from the following:

(01x10=10 Marks)

A. Keeping in view the changing environment, the Foreign Exchange Management Act (FEMA) was enacted in 1999 to replace FERA. FEMA became effective on June 1, 2000. The philosophical approach was shifted from that of conservation of foreign exchange to the management of foreign exchange, facilitating trade and payments as well as developing an orderly foreign exchange market. Elaborate on the objectives of foreign exchange control in India.

OR

X. The World Trade Organization (WTO) and the European Union (EU) continuously take measures to discourage countries from dumping by imposing tariffs and taxes. Elaborate on dumping practices in international market that critically influence the international trade.

Q. 3. Answer ANY ONE from the following:

(01x10=10 Marks)

A. If demand for a currency is low, its value will decrease, thus making imported goods more expensive and stimulating demand for local goods and services. This, in turn, will generate more jobs, causing an auto-correction in the market, which is a peculiar feature of a clean float. In this context, discuss the advantages of a clean float.

OR

X. In order to sell internationally, it is critical to offer appropriate payment methods that are safe and have favorable terms for both the buyer (importer) and the seller (exporter). There are risks involved in international trade. Importers want to receive their goods before making payment, and exporters

want to be paid before they release the goods. This is why reliable payment methods are important. In this context, discuss the methods used to make international payments.

Q. 4. Answer ANY ONE from the following:

(01x10=10 Marks)

A. The exchange rate between two currencies is determined by the interaction of several variables. Some variables have more influence on the determination of currency rates than others. One such variable is the interest rate. Elucidate the role of interest rates in the foreign exchange market.

OR

X. The essential idea of entering into a forward contract is to fix the exchange rate in advance and thereby avoid the exchange rate risk. Explain.

Q. 5. Answer ANY ONE from the following:

(01x10=10 Marks)

A. According to the Efficient Market Hypothesis developed by economist Eugene Fama, in an ideal condition, all active traders and participants in the market will process available price information to bring the market to equilibrium. It means there is no place for price disparities between markets. However, in reality, market does not always operate efficiently. Meaning, the flow of information is not instantaneous always in all parts of the world. As a result, asymmetric information distribution happens between buyers and sellers, creating arbitrage opportunities. Explain the arbitrage opportunities in forex market with the help of an example.

OR

X. According to Kindleberger, "The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time". The compilation of a country's balance of payments statement is a tedious process mainly due to its complex structure. Explain the structure of the balance of payments of a country.
