

Course 526— INTERNATIONAL FINANCIAL SYSTEMS AND MARKETS

Time : 3 hours

Maximum Marks : 70

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt all questions. All questions carry equal marks.

1. a) Discuss the evolution of International Monetary System since 1945.
b) What led to the breakdown of Bretton Woods System? (7x2)

OR

- a) What are various factors that influence foreign exchange rate?
b) What are alternative exchange rate systems? Highlight the difference between fixed and floating exchange rate system? (7+4+3)

2. a) Explain Purchasing Power Parity. Highlight the concepts of relative and absolute purchasing power parity with relevant illustrations.
b) Consumer Price Index (CPI) rose from 100 to 108 over the year 2011 in Australia and at the same time it increased from 200 to 214 in U.S.A. The exchange rate at the beginning of the period was AUD/USD: 0.1921. What should be the exchange rate at the end of 2010, if PPP holds during the period? (4+4+6)

OR

- a) Explain Interest Rate Parity. Highlight the concepts of covered and uncovered interest rate parity with relevant illustrations.
b) The interest rates in India and U.S.A. are 8 percent and 6 percent respectively. The current spot rate is USD/INR: 39.4354. If interest rate parity holds, what is three month forward rate? (4+4+6)

3. How are quotations made? What are the various practices of quotations? Find the outright quotes of the following:

Spot rate	1 month forward	3 month forward
USD/INR: 45.63/95	70/60	60/70
USD/INR: 45.7320/9300	700-500	300-200
USD/INR: 43.45/85	3 % premium	4% discount

(3+3+8)

Turn over

OR

What is cross currency matrix? What is general formulation of matrix?
Prepare a cross currency matrix from the following data:

USD/ INR: 45.30

USD/ EUR: 0.6963

USD/ GBP: 0.5020

(3+3+8)

4. a) How did U.S. dollar gain the position of an international currency?
b) What are the various factors/ reasons for the dominance of dollar even today in the International Monetary System?

(7x2)

OR

- a) What are Euro Currency Deposits? Highlight the reasons for the emergence and popularity of Euro Currency Deposits.
b) Explain Euro Bonds highlighting the concepts of Floating Rate notes and Convertible bonds.

(4+3)

(3+2+2)

5. Write Short Notes on any four of the following:

- a) LIBOR
- b) GDR.
- c) Financial Swaps
- d) SDR.
- e) Big Mac Index
- f) Currency Swaps

(3.5x4)