

FOREX CLASS 7 PART I

CLASS WORK COVERAGE

To streamline our learning process, I've categorized the questions we'll tackle in class into four distinct groups:

1. **Classic:** *These questions are exactly as presented in your book, providing a familiar foundation.*
2. **Transformed:** *Here, we've converted book questions into multiple-choice format to enhance your analytical skills.*
3. **Adapted:** *These are similar to book questions but with altered numbers or names, presented as multiple-choice questions for varied practice.*
4. **Original:** *These are entirely new questions not found in your book, designed to challenge and expand your understanding.*

This structure will help us navigate through a range of problems, ensuring a comprehensive grasp of the material. Looking forward to our next session!

Q. No	Type	Book	Page No.	Q No.
1	<i>Original</i>	-	-	-
2	<i>Original</i>	-	-	-
3	<i>Original</i>	-	-	-
4	<i>Original</i>	-	-	-
Case Study 1	<i>Adapted</i>	CW Q BOOK	9	25

Question 1:

Spot € / £ 1.2610/1.2680

3 months Swap point 80/110

Calculate 3 months forward rate.

Answer:

3m F € / £ $(1.2610 + 0.0080) / (1.2680 + 0.0110)$

= 1.2690 / 1.2790

Question 2:

Spot £ / \$ 0.8630/10

3 months swap points 50/90

Calculate 3 months forward rate.

Answer:

3m F £ / \$ $(0.8630 + 0.0050) / (0.8710 + 0.0090)$

= 0.8680 / 0.8800

Question 3:

Spot ₹ / \$ 83.20/70

1 month swap point 110/130

3 months Swap point 220/280

Calculate 1 month and 3 months forward rate.

Answer:

1m Forward ₹ / \$ 84.30/85.00

3m Forward ₹ / \$ 85.40/86.50

Question 4:

Spot \$/€ 0.9630/80

3 months swap points 130/110

Calculate 3 months forward rate.

Answer:

3m F (\$/€) 0.9500/0.9570

CASE STUDY 1

ABC Exporters are holding an Export Bill in United States Dollar (USD) of 50,000, due 90 days from now. They are concerned about the falling USD value, currently quoted at ₹80.00 per USD. The Export Consignment has been priced on an Exchange rate of ₹79.50 per USD. The firm's bankers have quoted a 90-day forward rate of ₹78.80. (Assume 365 days in a year)

You are required to calculate:

Question 1:

Rate of discount quoted by the bank

- A. 6.17%
- B. 6.08%
- C. 5.30%
- D. 5.42%

Question 2:

The probable loss of operating profit if the forward sale is agreed to

- A. ₹35,000
- B. ₹28,000
- C. ₹35,000
- D. ₹30,000

Answer:

Question 1:

B is correct.

Rate of Discount Quoted by the Bank

The formula for calculating the rate of discount quoted by the bank is:

$$\text{Rate of Discount} = \frac{(\text{Forward Rate} - \text{Spot Rate}) \times 365 \times 100}{\text{Spot Rate} \times \text{Number of Days}}$$

Given Data:

- Spot Rate = ₹80.00
- Forward Rate = ₹78.80
- Number of Days = 90

Substitute into the formula:

$$\begin{aligned}\text{Rate of Discount} &= \frac{(78.80 - 80.00) \times 365 \times 100}{80.00 \times 90} \\ &= 6.08\%\end{aligned}$$

Question 2:

C is correct.

Probable Loss of Operating Profit

The formula for probable loss of operating profit is:

$$\text{Loss of Operating Profit} = (\text{Expected Rate} - \text{Forward Rate}) \times \text{USD Amount}$$

Given Data:

- Expected Rate = ₹79.50
- Forward Rate = ₹78.80
- USD Amount = \$50,000

Substitute into the formula:

$$\begin{aligned}\text{Loss of Operating Profit} &= (79.50 - 78.80) \times 50,000 \\ &= 0.70 \times 50,000 \\ &= ₹35,000\end{aligned}$$

So, the Loss of Operating Profit is ₹35,000.