

FOREX CLASS 1

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.
Case Study 1	<i>Transformed</i>	HW Answer Book	49	Case Study 1
Case Study 2	<i>Transformed</i>	CW Answer Book	65	1
MCQ Question	<i>Original</i>	-	-	-

CASE SCENARIO BASED MCQ

CASE STUDY 1

An Indian investor invests in the stock of General motors ltd(US company) at the beginning of the year. He spent \$20000 to purchase 500 shares of General motors ltd. At the same time the stock of Tata motors was trading at 400. At the end of the year he sold his shares of General motors ltd when the Tata motors is trading at 460. The share price of General motors changed in the same direction and by same percentage as that of Tata motors. The exchange rate at the beginning of the year is INR 80 per USD and during this year dollar value appreciated by 10% against rupee.

Question 1:

What is the rupee outlay in buying the shares of General Motors?

- A. ₹12,80,000
- B. ₹14,40,000
- C. ₹16,00,000
- D. ₹18,20,000

Question 2:

What is the stock price of General Motors Ltd. at the end of the year?

- A. \$42
- B. \$44
- C. \$48
- D. \$46

Question 3:

What is the exchange rate at the end of the year?

- A. ₹86/USD
- B. ₹88/USD
- C. ₹90/USD
- D. ₹92/USD

Question 4:

How much was received in \$ terms and INR terms by selling General Motors shares at the end of the year?

- A. \$23,000 and ₹20,24,000
- B. \$22,500 and ₹19,80,000
- C. \$24,000 and ₹21,12,000
- D. \$25,000 and ₹22,00,000

Question 5:

Calculate the ROI for the investor and split it into return on security, return on the exchange rate, and cross product. What is the correct breakdown?

- A. 26.5% total ROI, with 15% from security, 10% from exchange rate, and 1.5% from cross product
- B. 26.5% total ROI, with 16% from security, 9% from exchange rate, and 1.5% from cross product
- C. 26.5% total ROI, with 14% from security, 10% from exchange rate, and 2.5% from cross product
- D. 26.5% total ROI, with 15% from security, 8% from exchange rate, and 3% from cross product

Question 6:

What will be the total return if, instead of the dollar appreciating by 10%, it depreciates by 10%?

- A. 7.5%
- B. 5.0%
- C. 6.0%
- D. 3.5%

Question 7:

In the given example, the dollar appreciated by 10% against the rupee. Can we say that the rupee depreciated by 10% against the dollar?

- A. Yes
- B. No
- C. Cannot determine
- D. Depends on market conditions

Answer:**Question 1:**

C is correct.

\$20000 worth of General motors shares at INR 80 per \$ i.e.. $20000 \times 80 = 16,00,000$

Question 2:

D is correct.

Stock price of General motors at the beginning = $20000/500 = \$40$

It is given General motors and Tata motors move in the same direction and by same percentage.

Tata motors moved from 400 to 460 i.e.. 15% return. So the stock price of General motors ltd would be $40(1.15) = \$46$

Question 3:

B is correct.

Dollar value appreciated by 10% i.e.. it became costly to buy dollar

Exchange rate at the end of the year = $80(1.10) = \text{INR } 88 \text{ per USD}$

Question 4:

A is correct.

Amount received in \$ terms = $46 \times 500 = \$23000$

Amount received in INR terms = $46 \times 500 \times 88 = \text{INR } 20,24,000$

Question 5:

A is correct.

Rupee inflow at the end of year = 20,24,000

Rupee outflow at the start of year = 16,00,000

Total return = $20,24,000 - 16,00,000 / 16,00,000 = 26.5\%$

This can be classified as :

- a. Return of security = 15% (i.e. 40 to 46)
- b. Return due to change in exchange rate = 10%

Cross product = 15% of 10% = 1.5%

Question 6:

D is correct.

Exchange rate at the end of the year would be $80(0.90) = 72$

Rupee inflow at the end of the year = $230 \times 100 \times 72 = 16,56,000$

Total return = $16,56,000 - 16,00,000 / 16,00,000 = 3.5\%$

(Or) = $[(1+RFC) (1+RFX)] - 1 = (1.15) (0.90) - 1 = 1.035 - 1 = 3.5\%$

Question 7:

B is correct.

No.

CASE STUDY 2

Mr. Ram, an Indian who is an ardent follower of Elon Musk always wanted to buy a high end tesla car. Since the price after including the import duties is too high he decided to invest his money by buying the shares of Tesla Inc to earn returns till the car is available in Indian market and he is confident that his capital is safe. On 28/04/2020 he purchased 500 shares of tesla at an average price of 53 per share at 76.8Rs/\$.

Date	Open	High	Low	Close*	Adj Close**	Volume
May 05, 2020	52.65	53.26	50.81	51.21	51.21	254,875,500
May 04, 2020	46.73	50.80	46.53	50.75	50.75	288,556,500
May 01, 2020	50.33	51.52	45.54	46.75	46.75	487,977,000
Apr 30, 2020	57.01	57.99	50.90	52.13	52.13	427,078,500
Apr 29, 2020	52.68	53.55	52.21	53.37	53.37	243,240,000
Apr 28, 2020	53.04	53.67	50.45	51.27	51.27	228,330,000

CANARA BANK
INTEGRATED TREASURY WING, MUMBAI – 400 051
TREASURY: FOREX-RATEX
DATE : 28.04.2020

Rates quoted are in Rupees for one unit of Foreign Currency except for JPY which is quoted for 100 units .

		SELLING RATES				BUYING RATES		
CURRENCY		TT/DDS	BILL	T C		TT/CHQ	BILL	T C
USD/INR		76.7750	76.9275	77.15		76.0600	76.01	75.30
GBP/INR		95.6550	95.8450	96.15		94.0475	93.98	93.10
EUR/INR		83.2575	83.4250	83.65		82.0600	82.00	81.25
JPY/INR		71.8475	71.9900	72.20		70.6775	70.6300	69.95

On 01/05/2020 Elon musk has tweeted that the price of tesla stock is too high, soon the stock price started to crash.



Mr. Ram's fear of capital erosion exceeded his admiration for Mr. musk and he sold the stock on 01/05/2020 at an average price of 48 and converted the dollar proceedings into rupees on 04/05/2022 at 75.3Rs./\$

CANARA BANK								
INTEGRATED TREASURY WING, MUMBAI – 400 051								
TREASURY: FOREX-RATEX								
DATE : 04.05.2020								
Rates quoted are in Rupees for one unit of Foreign Currency except for JPY which is quoted for 100 units .								
CURRENCY		SELLING RATES				BUYING RATES		
		TT/DDS	BILL	T C		TT/CHQ	BILL	T C
USD/INR		76.1050	76.2550	76.50		75.3600	75.31	74.60
GBP/INR		95.0625	95.2525	95.55		93.4300	93.37	92.50
EUR/INR		83.4275	83.5925	83.85		82.1875	82.13	81.35
JPY/INR		71.5725	71.7150	71.95		70.3900	70.3400	69.70

Question 1:

What was the initial cash outflow in rupees for Mr. Ram's investment in Tesla shares on 28/04/2020?

- A. ₹20,35,200
- B. ₹20,25,000
- C. ₹19,85,000
- D. ₹21,00,000

Question 2:

What was the total cash inflow in rupees when Mr. Ram sold his Tesla shares on 04/05/2020?

- A. ₹18,00,000
- B. ₹19,20,000
- C. ₹18,07,200
- D. ₹17,95,000

Question 3:

What was the percentage return (or loss) on Mr. Ram's investment in Tesla shares, considering the rupee conversion rates?

- A. -10.20%
- B. -11.20%
- C. -9.43%
- D. -12.15%

Question 4:

What was the percentage return (or loss) purely on Tesla's stock price?

- A. -11.20%
- B. -10.00%
- C. -8.50%
- D. -9.43%

Question 5:

What was the percentage return (or loss) due to the change in the exchange rate?

- A. -1.50%
- B. -1.80%
- C. -1.95%
- D. -2.10%

Answer:**Question 1:****A is correct.**

$$\begin{aligned}\text{Initial cash outflow} &= 500 \times 53 \times 76.8 \\ &= 20,35,200\end{aligned}$$

Question 2:**C is correct.**

$$\begin{aligned}\text{Cash inflow} &= 500 \times 48 \times 75.3 \\ &= 18,07,200\end{aligned}$$

Question 3:**B is correct.**

$$\begin{aligned}\text{Return (loss)} &= [(18,07,200 - 20,35,200) / 20,35,200] \times 100 \\ &= -11.20\%\end{aligned}$$

Question 4:**D is correct.**

$$\begin{aligned}\text{Return on Tesla stock} &= [(48 - 53) / 53] \times 100 \\ &= -9.43\%.\end{aligned}$$

Question 5:**C is correct.**

$$\begin{aligned}\text{Return due to exchange rate} &= [(75.3 - 76.8) / 76.8] \times 100 \\ &= -1.95\end{aligned}$$

SINGLE QUESTION BASED MCQ

Question:

Sam is planning a trip to South America and Europe with his family. He has \$8,000 in his savings account and wants to know how much he needs to borrow to pay for his expenses in each country.

The countries Sam is visiting and their estimated expenses in local currency are:

1. Brazil: 10,000 BRL
2. Australia: 4,500 AUD
3. UK: 3,000 GBP

The exchange rates Sam found for each currency are:

1. BRL/USD: 0.20
2. USD/AUD: 0.65
3. USD/GBP: 1.35

How much USD does Sam need to borrow today (keeping in mind that he already has \$8,000 in his savings account) to buy the currencies in the amount needed for his trip?

- A. \$45,775
- B. \$46,425
- C. \$47,935
- D. \$48,975

Answer:

D is correct.

To find out how much Sam needs to borrow, we first convert the expected expenses in each country into USD.

Brazil: $10,000 \text{ BRL} \div 0.20 = \$50,000$

Australia: $4,500 \text{ AUD} \times 0.65 = \$2,925$

UK: $3,000 \text{ GBP} \times 1.35 = \$4,050$

Total estimated expenses (in USD):

$\$50,000 + \$2,925 + \$4,050 = \$56,975$

Amount in savings account (in dollars):

$\$8,000$

Amount to be borrowed (in dollars):

$\text{Total Expenses} - \text{Savings} = \$56,975 - \$8,000 = \$48,975$