FOREX CLASS 4

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	***Original***	-	-	-
2	***Original***	-	-	-
3	***Original***	-	-	-
4	***Original***	-	-	-
5	***Original***	-	-	-
6	***Original***	-	-	-
7	***Original***	-	-	-
8	***Original***	-	-	-
9	***Original***	-	-	-
10	***Transformed***	CW QUESTION BOOK	4	10
11	***Adapted***	CW QUESTION BOOK	4	10
12	***Transformed***	CW QUESTION BOOK	4	9
13	***Transformed***	CW QUESTION BOOK	4	11

Question 1:

The market rates are as under:
Rs./$: 48.20/24
Rs./Euro : 42.85/90
If an Indian company requires Euro in exchange of $, the rate quoted to him is

A. $ /Euro 0 .8890

B. $/Euro 0.8893

C. $ /Euro 0.8900

D. $/Euro 0.8883

Answer:

C is correct.

$ / Euro ask rate is

$$= (\$/\text{Rs.})\ \text{ask} \times (\text{Rs./Euro})\ \text{ask}$$

$$= \frac{1}{(\text{Rs.} / \$)\ \text{bid}} \times (\text{Rs.} / \text{Euro})\ \text{ask}$$

$$= \frac{1}{48.20} \times 42.90 = 0.8900.$$

Since the Indian company requires Euro in exchange of $, the $/Euro ask rate is to be quoted that is 0.8900.

Question 2:

A dealer provides the following quotes:

Ratio	Spot rate
CNY/HKD	0.8422
CNY/ZAR	0.9149
CNY/SEK	1.0218

The spot ZAR/HKD cross-rate is closest to:

A. 0.9205.

B. 1.0864.

C. 1.2978.

D. 0.7982

Answer:

A is correct.

To get to the ZAR/HKD cross-rate, it is necessary to take the inverse of the CNY/ZAR spot rate and then multiply by the CNY/HKD exchange rate:

$$ZAR/HKD=(CNY/ZAR)^{-1}\times(CNY/HKD)=(1/0.9149)\times0.8422=0.9205$$

Question 3:

The NZD is trading at USD/NZD 0.3500, and the SEK is trading at NZD/SEK 0.3100. The USD/SEK cross rate is:

A. 8.8573.

B. 9.2166.

C. 1.1290

D. 0.1085.

Answer:

D is correct.

USD/NZD 0.3500 x NZD/SEK 0.3100 = USD/SEK 0.1085.
Notice that the NZD term cancels in the multiplication.

Question 4:

Given the following quotes, GBP/USD 2.0000 and MXN/USD 8.0000, calculate the direct MXN/GBP spot cross exchange rate.

A. 0.2500.
B. 0.6250.
C. 4.0000.
D. 16.000.

Answer:

C is correct.

Invert the first quote to read USD/GBP 0.5000. Then, 0.5000 × 8.0000 = 4.0000 MXN/GBP.

Question 5:

If the spot exchange rate between the British pound and the U.S. dollar is GBP/USD 0.7775, and the spot exchange rate between the Canadian dollar and the British pound is CAD/GBP 1.8325, what is the USD/CAD spot cross exchange rate?

A. 0.70186.
B. 0.42428.
C. 1.42477.
D. 2.35691.

Answer:

A is correct.

First, convert GBP/USD 0.7775 to 1/0.7775 = USD/GBP 1.28617.
Then, divide USD/GBP 1.28617 by CAD/GBP 1.8325 = USD/CAD 0.70187.

Question 6:

Given an exchange rate of USD/CAD 0.9250 and USD/CHF 1.6250, what is the cross rate for CAD/CHF?

A. 1.5032.

B. 1.7568.

C. 0.5692.

D. 0.6653.

Answer:

B is correct.

(USD/CHF 1.6250) / (USD/CAD 0.9250) = CAD/CHF 1.7568

Question 7:

The Japanese yen is trading at JPY/USD 115.2200 and the Danish krone (DKK) is trading at JPY/DKK16.4989. The USD/DKK exchange rate is:

A. 6.9835.

B. 0.5260.

C. 0.1432.

D. 0.0005.

Answer:

C is correct.

The cross rate between USD and DKK is calculated in the following manner:
(USD/JPY)(JPY/DKK) = (1 / 115.2200) × 16.4989
= USD/DKK 0.1432 (the Yen cancels out)

Question 8:

Given the following exchange rates:

1. **₹/$ (INR/USD)**: 76.20 / 77.10
2. **$/£ (USD/GBP)**: 1.2620 / 1.2750

Calculate the cross rate for **₹/£ (INR/GBP)**, specifying the bid and ask rates.

Answer:

To calculate the cross rate for ₹/£, the formula for bid and ask rates is:

Bid = Bid × Bid
Ask = Ask × Ask

Calculation:

Bid Calculation:
76.20 × 1.2620 = 96.16

Ask Calculation:

77.10 × 1.2750 = 98.30
Thus, the cross rate **₹/£** is:

Bid: 96.16
Ask: 98.30

Final Cross Rate:

₹/£=96.16/98.30

Question 9:

Given the following exchange rates:

1. **₹/$ (INR/USD)**: 82.30 / 83.40
2. **¥/$ (JPY/USD)**: 128.90 / 129.50

Calculate the cross rate for **₹/¥ (INR/JPY)**, specifying the bid and ask rates.

Answer:

To calculate the cross rate for ₹/¥, use the following formula:

Bid: Bid/Ask

Ask: Ask/ Bid

Calculation:

Bid Calculation:

82.30/129.50 = 0.6355

Ask Calculation:

83.40/128.90 = 0.6470

Thus, the cross rate **₹/¥** is:

Bid: 0.6355

Ask: 0.6470

Final Cross Rate:

₹/¥ = 0.635/0.6470

Question 10:

XYZ Bank, Amsterdam, wants to purchase ₹ 25 million against £ for funding their Nostro account and they have credited LORO account with Bank of London, London. Ongoing inter-bank rates are per $, ₹ 61.3625/3700 & per £, $ 1.5260/70.

What amount of GBP will XYZ Bank receive?

A. £267,000
B. £265,000
C. £265,500
D. £267,500

Answer:

D is correct.

To purchase Rupee, XYZ Bank shall first sell £ and purchase $ and then sell $ to purchase Rupee. Accordingly, following rate shall be used:

$(£/₹)_{ask}$

The available rates are as follows:

$(\$/£)_{bid}$ = $1.5260

$(\$/£)_{ask}$ = $1.5270

$(₹/\$)_{bid}$ = ₹ 61.3625

$(₹/\$)_{ask}$ = ₹ 61.3700

From above available rates we can compute required rate as follows:

$(£/₹)_{ask}$ = $(£/\$)_{ask}$ x $(\$/₹)_{ask}$

= (1/1.5260) x (1/61.3625)

= £ 0.01068 or £ 0.0107

Thus, amount of £ to be credited

= ₹ 25,000,000 x £ 0.0107

= £ 267,500

Question 11:

ABC Bank, Frankfurt, wants to purchase €40 million against JPY to fund their Nostro account and has credited the LORO account with Bank of Tokyo, Tokyo. The ongoing inter-bank rates are as follows:

- Per USD: €0.8950/€0.8965
- Per JPY: USD 0.00905/USD 0.00910

How many Yen (¥) will be credited?

A. Yen 4,93,84,24,025
B. Yen 4,11,96,31,995
C. Yen 5,00,65,56,443
D. Yen 4,00,43,33,565

Answer:

Done in class

Question 12:

English Bank Ltd. sold Hong Kong Dollar 10 Crores value spot to its customer at ₹ 9.70 and covered itself in the London market on the same day, when the exchange rates were US $ 1 = HK $ 7.7506-7.7546. Local interbank market rates for US $ were Spot US $ 1 = ₹ 74.70 – 74.85.
Calculate the cover rate and ascertain the profit or loss on the transaction. Ignore brokerage.
(Figures are to be rounded off to 4 decimals.)

A. The Cover Rate: 9.6573 and Profit to Bank: ₹42,70,000
B. The Cover Rate: 9.6330 and Profit to Bank: ₹45,70,000
C. The Cover Rate: 9.6573 and Loss to Bank: ₹42,70,000
D. The Cover Rate: 9.6330 and Loss to Bank: ₹45,70,000

Answer:

A is correct.

The bank (Dealer) covers itself by buying from the market at market selling rate.

Rupee – Dollar selling rate	= ₹ 74.85
Dollar – Hong Kong Dollar	= HK $ 7.7506
Rupee – Hong Kong cross rate	= ₹ 74.85/ 7.7506
Cover Rate	= ₹ 9.6573
Profit / Loss to the Bank	
Amount received from customer (10 crore × 9.70)	₹ 97,00,00,000
Amount paid on cover deal (10 crore × 9.6573)	₹ 96,57,30,000
Profit to Bank	₹ 42,70,000

Question 13:

You sold Hong Kong Dollar 1,00,00,000 value spot to your customer at ₹ 5.70 & covered yourself in London market on the same day, when the exchange rates were

US$ 1 = H.K.$ 7.5880 7.5920

Local inter bank market rates for US$ were

Spot US$ 1 = ₹ 42.70 42.85

What is the profit or loss on the transaction? Ignore brokerage.

A. The Cover Rate: 5.1411 and Profit to Bank: ₹5,00,000
B. The Cover Rate: 5.6471 and Profit to Bank: ₹5,29,000
C. The Cover Rate: 5.6471 and Loss to Bank: ₹5,29,000
D. The Cover Rate: 5.1411 and Loss to Bank: ₹5,00,000

Answer:

B is correct.

The bank (Dealer) covers itself by buying from the market at market selling rate.

Rupee – Dollar selling rate	= ₹ 42.85
Dollar – Hong Kong Dollar	= HK $ 7.5880
Rupee – Hong Kong cross rate	= ₹ 42.85 / 7.5880
	= ₹ 5.6471

Profit / Loss to the Bank	
Amount received from customer (1 crore × 5.70)	₹ 5,70,00,000
Amount paid on cover deal (1 crore × 5.6471)	₹ 5,64,71,000
Profit to Bank	₹ 5,29,000