FOREX CLASS 3

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	***Transformed***	CW Q Book	2	4
1	***Adapted***	CW Q Book	3	5
2	***Adapted***	CW Q Book	3	5
3	***Adapted***	CW Q Book	3	5
4	***Adapted***	HW Q Book	2	2
5	***Adapted***	HW Q Book	2	2
6	***Adapted***	HW Q Book	2	2
7	***Original***	-	-	-
8	***Adapted***	CW Q Book	2	3
9	***Original***	-	-	-
10	***Adapted***	CW Q Book	3	6
11	***Original***	-	-	-

CASE STUDY

The following 2-way quotes appear in the foreign exchange market:

	Spot	2-months forward
RS/US $	₹46.00/₹46.25	₹47.00/₹47.50

Question 1:

How many US dollars should a firm sell to get ₹25 lakhs after 2 months?

A. $53,500

B. $53,191

C. $52,900

D. $52,500

Question 2:

How many Rupees is the firm required to pay to obtain $200,000 in the spot market?

A. ₹92,00,000

B. ₹91,50,000

C. ₹93,00,000

D. ₹92,50,000

Question 3:

Assume the firm has $69,000 in its current account earning no interest. ROI on Rupee investment is 10% p.a. Should the firm encash the $ now or after 2 months?

A. Encash now to maximize ROI.

B. Both options result in equal returns.

C. Encash later as forward proceeds exceed the opportunity gain.

D. Encash now to avoid currency risk.

Answer:

Question 1:

B is correct.

US $ required to get ₹ 25 lakhs after 2 months at the Rate of ₹ 47/$

$= \frac{₹25,00,000}{₹47} =$ US $ 53191.489

Question 2:

D is correct.

₹ required to get US$ 2,00,000 now at the rate of ₹46.25/$
∴ US $ 200,000 × ₹46.25 = ₹92,50,000

Question 3:

C is correct.

Encashing US $ 69000 Now Vs 2 month later

Proceed if we can encash in open mkt $ 69000 × ₹46 = ₹ 31,74,000

Opportunity gain

$31,74,000 \times \frac{10}{100} \times \frac{2}{12}$	₹ 52,900
Likely sum at end of 2 months	32,26,900
Proceeds if we can encash by forward rate :	
$ 69000 × ₹47.00	32,43,000

It is better to encash the proceeds after 2 months and get opportunity gain.

SINGLE QUESTION BASED MCQ

Question 1:

Consider the following quotations:

1 USD = AUD 1.3500/20

An Australian exporter exports goods worth USD 80,000 from Sydney. What amount of AUD will be receivable on conversion?

A. AUD 108,400

B. AUD 108,160

C. AUD 108,000

D. AUD 107,840

Answer:

C is correct.

Given:

- **Exchange Rate**: 1 USD = AUD 1.3500 / 1.3520
- **Amount**: USD 80,000

1. **Identify the Relevant Exchange Rate:**
    - The exporter is converting USD to AUD.
    - The bank will buy USD at the **bid rate** (AUD 1.3500 per USD).
2. **Calculate the Amount of AUD Receivable:**
    - Amount in AUD = USD amount × Bid rate
    - Amount in AUD = 80,000×1.3500 1.3500
    - Amount in AUD = AUD 108,000

Question 2:

Consider the following quotations:

1 Indian Rupee (INR) = Japanese Yen (JPY) 1.5200 / 1.5300

An Indian firm has surplus funds of INR 600,000 and decides to invest in Japan. What amount of JPY would be invested?

A. JPY 912,000

B. JPY 918,000

C. JPY 915,000

D. JPY 900,000

Answer :

A is correct.

Given:

- **Exchange Rate:** 1 INR = JPY 1.5200 / 1.5300
- **Amount:** INR 600,000

Explanation:

1. **Identify the Relevant Exchange Rate:**
    - The firm is converting INR to JPY.
    - The bank will buy INR at the **bid rate** (JPY 1.5200 per INR).
2. **Calculate the Amount of JPY to be Invested:**
    - Amount in JPY = INR amount × Bid rate
    - Amount in JPY = 600,000×1.5200
    - Amount in JPY = JPY 912,000

Question 3:

Consider the following quotations:

1 US Dollar (USD) = Japanese Yen (JPY) 110.00 / 110.50

An American firm imports goods from Japan worth JPY 22,100,000. What amount of USD is required to settle the payment?

A. USD 200,000.09

B. USD 200,909.09

C. USD 201,000.09

D. USD 199,000.09

Answer:

B is correct.

Given:

- **Exchange Rate:** 1 USD = JPY 110.00 / 110.50
- **Amount to Pay:** JPY 22,100,000

Explanation:

1. **Identify the Relevant Exchange Rate:**
    - The American firm needs to **buy** JPY to pay the Japanese supplier.
    - To obtain JPY, the firm will **sell** USD.
    - The bank will **buy** USD at the **bid rate** of **JPY 110.00 per USD**.
2. **Calculate the Amount of USD Required:**
    - Amount in USD= JPY amount/Bid rate
    - Amount in USD= 22,100,000/110.00
    - Amount in USD=USD 200,909.09

Question 4:

Consider the following quotations:

1 AUD = USD 0.7000/50

A US exporter exports goods worth AUD 100,000 from New York. What amount of USD will be receivable on conversion?

A. USD 69,000

B. USD 70,000

C. USD 70,500

D. USD 71,000

Answer:

B is correct.

Sell AUD 100,000 @ 0.7000 to get
Amount of USD = 100,000 × 0.7000
= **USD 70,000**

Question 5:

1 EUR = CHF 1.0800/50

A European firm has surplus funds of €500,000 and decides to invest in Switzerland. What amount of CHF would be invested?

A. CHF 535,000

B. CHF 545,000

C. CHF 542,500

D. CHF 540,000

Answer:

D is correct.

Sell €500,000 @ 1.0800
Investment = 500,000 × 1.0800
= **CHF 540,000**

Question 6:

1 CAD = MXN 14.2750/90

A Canadian firm imports goods from Mexico worth MXN 142,750. What amount of CAD is required to settle the payment?

A. CAD 9,950.00

B. CAD 9,990.00

C. CAD 10,000.00

D. CAD 10,050.00

Answer:

C is correct.

Sell CAD @ 14.2750
Amount of CAD required = 142,750 / 14.2750
= **CAD 10,000.00**

Question 7:

A Canadian firm imports goods from the UK worth CAD 250,000. Given the exchange rate of 1 GBP = CAD 1.7720/90, what amount of GBP will the UK firm receive upon conversion?

A. GBP 140,528.39

B. GBP 140,500.00

C. GBP 140,550.50

D. GBP 140,480.80

Answer:

A is correct.

1. **Understanding the Exchange Rate:**
   - The exchange rate **1 GBP = CAD 1.7720/90** implies:
     - **Bid Rate:** CAD 1.7720 (the rate at which the dealer buys GBP)
     - **Ask Rate:** CAD 1.7790 (the rate at which the dealer sells GBP)
2. **Determining Which Rate to Use:**
   - Since the **Canadian firm is buying GBP** to pay the UK firm, the **ask rate** is applicable.
   - **Ask Rate:** CAD 1.7790 per GBP

3. Calculating the Amount in GBP:

Amount in GBP = Total CAD/Ask Rate
= 250,000 CAD/1.7790 CAD/GBP
= 140,528.39 GBP

The UK firm will receive approximately **GBP 140,528.39** upon conversion.

Question 8:

Bank of Tokyo, Japan, wants to purchase ₹ 10 million against € for funding their Nostro account with DBS Bank, Singapore. Assuming the interbank rates of € are ₹ 85.7525/85.7600, what would be the rate DBS Bank would quote to Bank of Tokyo? Further, if the deal is struck, what would be the equivalent € amount?

A. Rate quoted by DBS Bank to Bank of Tokyo: ₹85.7600; Equivalent € amount: €1,16,563.45

B. Rate quoted by DBS Bank to Bank of Tokyo: ₹85.7525; Equivalent € amount: €1,16,600.00

C. Rate quoted by DBS Bank to Bank of Tokyo: ₹85.7525; Equivalent € amount: €1,16,614.68

D. Rate quoted by DBS Bank to Bank of Tokyo: ₹85.7600; Equivalent € amount: €1,16,600.00

Answer:

C is correct.

Here, DBS Bank shall buy € and credit ₹ to the Nostro account of Bank of Tokyo. DBS Bank's buying rate will be based on the interbank buying rate (as this is the rate at which DBS Bank can sell € in the interbank market).

Accordingly, the Interbank Buying Rate of € will be ₹85.7525 (lower of two)

Equivalent of € for ₹10 million at this rate will be:

€ = 10,000,000/85.7525
= €1,16,614.68

Question 9:

A Brazilian firm wishes to invest surplus funds amounting to BRL 500,000 in Switzerland. Given the exchange rate of 1 CHF = BRL 6.8460/10, how much CHF will be invested?

A. CHF 72,980.50

B. CHF 72,982.06

C. CHF 72,990.75

D. CHF 73,000.00

Answer:

B is correct.

1. **Understanding the Exchange Rate:**
   - The exchange rate **1 CHF = BRL 6.8460/10** implies:
     - **Bid Rate:** BRL 6.8460 (the rate at which the dealer buys CHF)
     - **Ask Rate:** BRL 6.8510 (the rate at which the dealer sells CHF)

2. **Determining Which Rate to Use:**
   - Since the **Brazilian firm is buying CHF** to invest in Switzerland, the **ask rate** is applicable.
   - **Ask Rate:** BRL 6.8510 per CHF

3. **Calculating the Amount in CHF:**

Amount in CHF = Total BRL/Ask Rate
= 500,000 BRL /6.8510 BRL/CHF
= 72,982.06 CHF

The Brazilian firm will invest approximately **CHF 72,982.06** in Switzerland upon conversion.

Question 10:

A Canadian firm decides to acquire an Australian-based company for a purchase consideration of AUD 600 million. At that time, the exchange rate was:

1 AUD = CAD 0.9600/0.9650

However, there was a 10-day delay, and the exchange rate changed to:

1 CAD = AUD 1.040/1.045

What is the impact of the exchange rate change on the cost of acquisition of the Canadian firm in CAD terms?

A. Loss of CAD 2.08 million
B. Loss of CAD 3.00 million
C. Profit of CAD 2.08 million
D. No impact on cost

Answer:

C is correct.

AUD/CAD	= 0.9600/0.9650 (Spot rate)
After 10 days, CAD/AUD	= 1.040/1.045
At the old exchange rate, the cost of acquisition	= AUD 600 × 0.9650

= CAD 579.00 million

After 10 days, the cost of acquisition = 600 / 1.040

= CAD 576.92 million

Hence, **Profit due to delay** = CAD (579.00 - 576.92)

= CAD **2.08 million**.

Question 11:

A Chinese firm decides to acquire a Danish firm in an all-cash deal where the purchase consideration is fixed at DKK 625 million. Given the exchange rate of 1 DKK = CNY 1.0280/20, what is the cost of acquisition in terms of CNY?

A. CNY 644,800,000.00

B. CNY 645,200,000.00

C. CNY 644,900,000.00

D. CNY 645,000,000.00

Answer:

D is correct.

1. **Understanding the Exchange Rate:**
   - The exchange rate 1 DKK = CNY 1.0280/20 implies:
     - Bid Rate: CNY 1.0280 (the rate at which the dealer buys DKK)
     - Ask Rate: CNY 1.0320 (the rate at which the dealer sells DKK)
2. **Determining Which Rate to Use:**
   - Since the **Chinese firm is buying DKK** to pay for the Danish firm, the **ask rate** is applicable.
   - **Ask Rate:** CNY 1.0320 per DKK
3. **Calculating the Cost in CNY:**

   Cost in CNY = Total DKK × Ask Rate

   = 625,000,000 DKK × 1.0320 CNY/DKK

   Cost in CNY = 625,000,000×1.0320

   = 645,000,000 CNY

   The cost of acquisition is **CNY 645,000,000.00**.