

**CA FINAL**  
**STRATEGIC FINANCIAL MANAGEMENT**  
**FOREX**  
**TEST 3**

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Answers

**Question 1 :**

Using ¥ 3,000,000

**Step 1 :** Sell ¥ 3,000,000 to Bank C, @ 150.70

$$\text{getting } \pounds = \frac{3,000,000}{150.70} = \pounds 19,907.10$$

**Step 2 :** Sell £ 19,907.10 to Bank A, at \$/£ 1.6140, getting  
 $19,907.10 \times 1.6140 = \$ 32,130.05$

**Step 3 :** Sell \$ 32,130.05 to Bank B at ¥/\$ 102.22  
getting =  $32,130.05 \times 102.22 = \text{¥ } 3,284,333.711$

$$\begin{aligned} \text{Arbitrage Profit} &= \text{¥ } (3,284,333.711 - 3,000,000) \\ &= \text{¥ } 2,84,333.711 \end{aligned}$$

**Question 2 :**

Using \$ 50,000

**Step 1 :** Sell \$ 50,000 to C, @ \$/pound 1.3680

$$\text{getting } \pounds = \frac{50,000}{1.3680} = \pounds 36,549.70$$

**Step 2 :** Sell £ 36,549.70 to B, at Rs./£ 87.10, getting  
 $36,549.70 \times 87.10 = \text{Rs. } 3,183,479.53$

**Step 3 :** Sell Rs. 3,183,479.53 to Bank A at Rs./\$ 53.10  
getting =  $3,183,479.53/53.10 = \$59,952.53$

$$\begin{aligned} \text{Arbitrage Profit} &= \$ (59,952.53 - 50,000) \\ &= \$ 9,952.53 \end{aligned}$$

**Question 3 :**

$$\begin{aligned} \text{Annualised Forward discount on } \pounds &= \frac{(F-S)}{S} \times 100 \times \frac{12}{n} \\ &= \left( \frac{1.3410 - 1.3450}{1.3450} \right) \times 100 \times \frac{12}{2} = -1.7843\% \end{aligned}$$

$$\begin{aligned} \text{Annualised forward premium on Euro} &= \left( \frac{S-F}{F} \times 100 \times \frac{12}{n} \right) \\ &= \left( \frac{1.3450 - 1.3410}{1.3410} \right) \times 100 \times \frac{12}{2} = 1.7897\% \end{aligned}$$

**Question 4 :**

$$\text{₹/\$ Spot} = 52.30/52.70$$

$$\begin{aligned} \text{1 month forward Rate} &= (52.30 + 0.30) / (52.70 + 0.40) \\ &= 52.60/53.10 \end{aligned}$$

$$\begin{aligned} \text{2 month forward Rate} &= (52.30 + 0.50) / (52.70 + 0.60) \\ &= 52.80/53.30 \end{aligned}$$

$$\begin{aligned} \text{3 month forward Rate} &= (52.30 + 1.10) / (52.70 + 0.90) \\ &= 53.40 / 53.60 \end{aligned}$$

**Question 5 :**

a. Spot ₹/\$ = 61.30/61.80

b. 3m Swap points = 1.20/1.50

c. 6m Swap points = 1.80/2.00

d. Incremental Swap points for the second 3 month (c - b) = 0.60/0.50

e. Therefore incremental Swap points for 10 days of the second 3 months

$$\begin{aligned} &= 0.6 \times \frac{10}{90} / 0.5 \times \frac{10}{90} \\ &= 0.0667/0.0556 \end{aligned}$$

f. Total Swap Points for 100 days (b + c) = 1.2667 / 1.5556

g. 100 day forward Rate (a - f) = (61.30 + 1.2667)/61.80 + 1.5556  
= 62.5667/63.3556

