

CA FINAL
STRATEGIC FINANCIAL MANAGEMENT
FOREX
TEST 4

Question 1 :

An Indian diamond exporting firm has \$ 5000000 receivable 6 months from now. Spot rate is ₹ 50 / \$ and 6 month forward rate is ₹ 52 / \$. The firm hedges itself through forward cover. Find out the profit / loss due to Hedging if spot rate after 6 month turns out to be

- a. ₹ 55 / \$
- b. ₹ 48 / \$

Question 2 :

US Firm has £80000 receivable 6 months from now. It sells pound 6 month forward @ \$1.3450 /£. After 6 month spot rate =£ 0.8190 / \$. Calculate profit / loss on account of hedging.

Question 3 :

UK firm € 90000 receivable after 3 months sells € 3months forward @ £ 0.7250/€. Upfront premium 4%, cost of fund 10%, tax rate 30%. After 3 months spot rate =£0.7025/ €.Calculate profit/ loss on account of Hedging.

Question 4 :

US firm has £ 40000 receivable 3 m from now. The treasury department has the following forecast to share with you.

Spot rate after 3m (\$/£)	Probability
1.425	0.3
1.438	0.4
1.45	0.3

Should the firm hedge via forward contract, if 3 m f rate is \$ 1.4140 per £.

Question 5 :

In March, 2009, the Multinational Industries make the following assessment of dollar rates per British pound to prevail as on 1.9.2009:

\$/Pound	Probability
1.60	0.15
1.70	0.20
1.80	0.25
1.90	0.20
2.00	0.20

- i. What is the expected spot rate for 1.9.2009?
- ii. If, as of March, 2009, the 6-month forward rate is \$ 1.80, should the firm sell forward its pound receivables due in September, 2009?

Question 6 :

A company operating in Japan has today effected sales to an Indian company, the payment being due 3 months from the date of invoice. The invoice amount is 108 lakhs yen. At today's spot rate, it is equivalent to ₹ 30 lakhs. It is anticipated that the exchange rate will decline by 10% over the 3 months period and in order to protect the yen payments, the importer proposes to take appropriate action in the foreign exchange market. The 3 months forward rate is presently quoted as 3.3 yen per rupee. You are required to calculate the expected loss and to show how it can be hedged by a forward contract.

Question 7 :

Arnie operating a garment store in US has imported garments from Indian exporter of invoice amount of ₹ 1,38,00,000 (equivalent to US\$ 3,00,000). The amount is payable in 3 months. It is expected that the exchange rate will decline by 5% over 3 months period. Arnie is interested to take appropriate action in foreign exchange market. The three month forward rate is quoted at ₹ 44.50. You are required to calculate expected loss which Arnie would suffer due to this decline if risk is not hedged. If there is loss, then how he can hedge this risk.