NMIMS GLOBAL ACCESS
SCHOOL FOR
CONTINUING EDUCATION

NMIMS Global Access

School for Continuing Education (NGA-SCE)

Course: International Finance

Internal Assignment Applicable for June 2022 Examination

Assignment Marks: 30

Instructions:

- *All Questions carry equal marks.*
- *All Questions are compulsory*
- *All answers to be explained in not more than 1000 words for question 1 and 2 and for question 3 in not more than 500 words for each subsection. Use relevant examples, illustrations as far as possible.*
- *All answers to be written individually. Discussion and group work is not advisable.*
- *Students are free to refer to any books/reference material/website/internet for attempting their assignments, but are not allowed to copy the matter as it is from the source of reference.*
- *Students should write the assignment in their own words. Copying of assignments from other students is not allowed.*
- *Students should follow the following parameter for answering the assignment questions.*

For Theoretical Answer	
Assessment Parameter	**Weightage**
Introduction	20%
Concepts and Application related to the question	*60%*
Conclusion	*20%*

For Numerical Answer	
Assessment Parameter	**Weightage**
Understanding and usage of the formula	20%
Procedure / Steps	*60%*
Correct Answer & Interpretation	*20%*

1. Define interest rate parity (IRP) and explain with US and India example, when IRP does not hold good, how the opportunities for covered interest arbitrage arise. **(10 Marks)**

2. Explain International Fisher Effect (IFE), forward expectation parity (FEP) and summarise the relation through an appropriate diagram. **(10 Marks)**

3. Mr.Suresh Bhonsle is treasury head in India of a multi-national bank. In his individual capacity he is an investor of stocks. Over the years he has built up a robust portfolio by investing in stocks of companies of various sectors. In Airlines industry he has investment in 1000 shares in Indigo (InterGlobe Aviation Ltd.). The sector got badly hit during Covid 19. Mr. Bhonsle (being MBA finance from NMIMS and FRM and treasury head of a bank) goes through the financial statement of the company thoroughly. He notes, as a result of Covid Pandemic - Indigo suffered a net loss of Rs.58298 million during the financial year 2020-21 of which around 9% (Rs 5230 million) is attributable to foreign exchange loss. He further notes that the effect of exchange rate change (loss) on cash and cash equivalents held in foreign currency is Rs.177.28 million. 'Notes on accounts' further reveals that there is considerable foreign currency outgo resulting from loan repayment. The profit/ loss arises mainly on exchange difference in repayment of foreign currency loan. Despite foreign currency transaction exposure there does not seem to be in place proper 'hedging' of currency risk.

Currency risk can be hedged using forward contract with a multinational bank at the same future rate prevailing in the market. Alternatively, the company can deploy money market hedge. Among other loan repayments as per various schedules, suppose indigo has to pay Rs. 5 million (INR) at the yearend 2020-21 without hedging taking spot rate as USD 1 = 76 (or 1 INR= $0.0131). The market condition in 2020-21 was as under-

Indian 1 year T-bill rate	5.50% per annum
U.S 1 year bond yield	1.00%
Spot exchange rate	Rs.76/$1
Forward (future)exchange rate at the beginning of 2020-21	Rs.74/$/1

Required:

a. Compute the impact of hedging if forward rate route (forward hedge) is taken.

(5 Marks)

b. Compute the impact of money market hedge and compare with forward hedge (a) to arrive at logical conclusion as to hedging strategy the company should follow.

(5 Marks)

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