FOREIGN EXCHANGE MARKETS

TI &RM Chapter 4

Q: 1 Which of the following is not a characteristic of the foreign exchange market?

a) Market transparency
b) Dynamic market
c) Fixed currency values
d) Liquidity

Q: 2 Foreign Exchange Arithmetic is the process of exchanging one currency for another. These transactions occur on the foreign exchange market. Price or the value at which one currency is exchanged for another currency is known as__________.

a) Foreign Exchange Rate
b) Cross Rate
c) Market rate
d) all of the above

Q: 3 Currency pair is the quotation of two different currencies, with the value of one currency being quoted against the other. This is a currency pair of USD/GBP = 0.80 means ___________

a) One US dollar is equal to 0.80 British pounds.
b) One British pound is equal to 0.80 US dollars.
c) One US dollar is equal to 80 British pence.
d) One British pound is equal to 80 US cents.

Q: 4A direct quote for a currency is a foreign exchange rate quotation where the price of one unit of foreign currency is expressed in terms of the domestic currency. What does a direct quote for a currency indicate in foreign exchange markets?

a) How much of the foreign currency is needed to buy one unit of the domestic currency.
b) How much of the domestic currency is needed to buy one unit of the foreign currency.
c) How much profit can be made from currency exchange.
d) How much interest is accrued from currency deposits.

Q: 5___________quotation refers to expressing the value of one unit of the domestic currency in terms of a foreign currency. It involves stating how much of a foreign

currency is required to obtain one unit of the domestic currency.

a) Cross Currency Quotation
b) Direct Quotation
c) Indirect Quotation
d) Bid-Ask Spread

Q: 6 Which of this statement is correct regarding Currency Quotation?

I. Bid rate is a rate at which a bank is ready to buy one currency and Ask rate is a rate at which bank is ready to sell a foreign currency.
II. In One Way Quotations Currency is bought and sold on same rate
III. In Two Way Quotations one is the buying rate and the other is selling rate.

a) I, III,
b) II, III,
c) I, II,

d) I, II, III,

Q: 7What refers to the difference between the buying and selling price of a currency, representing the profit or margin earned by the bank or financial institution facilitating the currency exchange?

a) Spread
b) Profit
c) Forex Profit
d) All of the above

Q: 8An Indian IT company has exported software services worth $15,000 to a client in the U.S.A. The exporter submitted the export bill to their bank for conversion into Indian Rupees (INR). The current exchange rate is 1 USD = Rs. 82.50/82.60. How much amount in INR will the exporter receive?

a) 12,37,500

b) 1,238,000

c) 1,246,500

d) 1,250,000

Q: 9 An Indian exporter specializes in producing textiles and has secured a deal to sell them to a buyer in the United States. The total value of the export is $10,000, and an export bill is generated for this amount. Since the exporter operates in India, they need to convert the payment received in USD into Indian Rupees (INR) to facilitate their local operations and expenses. An exporter has submitted an export bill of $ 10000 and Rs.1 =0.0122USD. How much amount in Indian Rupees will be paid to the exporter?

a) 810000

b) 819672

c) 820000

d) 830000

Q: 10 _________________ are primarily used when the direct exchange rate between two currencies is not readily available or not actively traded in the market. By using this market participants can determine the relative value of one currency against another indirectly.

a) Spot Rates

b) Cross Rates

c) Forward Contracts

d) Exchange Reserves

Q: 11 A trader in India needs to pay a supplier in Japan and wants to convert Indian Rupees (INR) into Japanese Yen (JPY). However, the direct exchange rate between INR and JPY is not available. The following exchange rates are provided by the bank:

- 1 USD = Rs. 82.50
- 1 USD = 110 JPY

Using the cross rate, how much JPY will the trader receive for Rs. 82,500?

a) 110,000

b) 115,000

c) 120,000

d) 125,000

Q: 12 In the spot market, currencies are bought and sold for immediate delivery at the current market price. Transactions are settled within____________

a) Two business days (T+2) after the trade date.

b) Five business days (T+5) after the trade date.
c) Seven business days (T+7) after the trade date.
d) Nine business days (T+9) after the trade date.

Q: 13 ____________ market involves contracts to buy or sell currencies at a future date at a predetermined exchange rate. These contracts are used to hedge against future currency fluctuations.

a) Spot market
b) Forward market
c) Futures market
d) Options market

Q: 14 If the date of deal was 5 October 2022, settlement date would be 6 October 2022.Then Which rate is applicable on these transaction?

a) Cash or ready rate
b) TOM rate

c) Spot rate
d) Forward rate

Q: 15 The forward rate is the exchange rate agreed upon today for a currency transaction that will occur at a specified future date. The forward rate has two components namely_____

a) Sale price and purchase price
b) Spot rate and forward points
c) Spot rate and premium or discount
d) Spot rate and purchase price

Q: 16 If the forward exchange rate for a currency is more than the spot rate it is said to be at_________.

a) Premium
b) Discount
c) Expensive
d) None of the above

Q: 17 Which of this equation is correct regarding calculation of forward rate through forward differentials if currency is on premium?

a) Forward rate = Spot rate + Forward differentials

b) Forward rate = Spot rate - Forward differentials

c) Forward rate = Spot rate x Forward differentials

d) Forward rate = Spot rate /Forward differentials

Q: 18 Spot Euro = USD 1.3230/50. Two-month forward points 40-80. Two-month USD can be purchased at by bank at which rate.

a) Euro 1 = USD 1.3235

b) Euro 1 = USD 1.3270

c) Euro 1 = USD 1.3160

d) Euro 1 = USD 1.3140

Q: 19 If spot rate Euro 1 = USD 1.3350 /60, one month forward = 25-20,2 month forward = 30-25 and 3 months forward = 10-30. what is 3 months offer rate (selling rate)?

a) Euro 1 = USD 1.3240

b) Euro 1 = USD 1.3330

c) Euro 1 = USD 1.3200

d) Euro 1 = USD 1.3180

Q: 20 A company in India needs to pay €50,000 to a supplier in Europe after three months. The spot exchange rate for EUR/INR is 1.3280/90, and the three-month forward points are quoted as -30/-60 (indicating that the currency is on a discount). Determine how much the company will need to pay in INR after three months.

a) ₹66,150

b) ₹66,450

c) ₹67,150

d) ₹67,450

Q: 21 If spot exchange rate USD/Euro = 1.5620, interest rate differential = 4% p.a.., forward period = 90 days calculate the forward points by taking a year = 360 days.

a) 0.01562

b) 0.02356

c) 0.04581

d) 0.02361

Solution

$$\frac{\text{Spot rate X Interest Rate Differential X Forward Period}}{\text{100 X No. of days in a year}}$$

Q: 22 How does the difference in interest rates between the home country and the foreign country affect the forward margin in foreign exchange markets?

a) If the foreign interest rate is higher, the forward margin will always be at a premium

b) If the foreign interest rate is higher than the home interest rate, the forward margin will be at a discount

c) Interest rate differences have no impact on forward margins
d) None of the above

Q: 23 What happens to the forward rate of a foreign currency when its demand exceeds supply in the market?

a) The forward rate remains equal to the spot rate
b) The forward rate will be quoted at a premium
c) The forward rate will be quoted at a discount
d) The forward margin becomes zero

Q: 24 Which of the following is NOT a primary participant in the forex market?

a) Commercial Banks
b) Central Banks
c) Insurance Companies
d) Sovereign Wealth Funds

Q: 25 Which market participants are primarily responsible for providing liquidity and facilitating currency exchange for clients?

a) Central Banks

b) Sovereign Wealth Funds
c) Individuals
d) Commercial and Investment Banks

Q: 26 What is the primary role of central banks in the forex market?

a) To maximize profits through currency speculation
b) To facilitate individual currency trading
c) To provide loans to commercial banks
d) To stabilize the domestic currency and manage foreign reserves

Q: 27 Foreign Exchange Dealers' Association of India is a self-regulatory body for the Indian forex market established in 1958 with the aim of promoting and developing the foreign exchange market in India. It is an association of banks includes______.

I. Public Sector Banks
II. Private Sector Banks
III. Foreign Banks

IV. Co-operative banks

a) I, II
b) II, III, IV
c) I, II, III, IV
d) I, II, III,

Q: 28 Which of these is a function of FEDAI?

I. Issuing of guidelines and rules for handling of foreign exchange business,
II. Training of bank personnel in the areas of foreign exchange,
III. Advising member banks in settling issues in their dealings,
IV. Announcement of daily and periodical Performance of member banks

a) I, II
b) II, III, IV
c) I, II, III, IV
d) I, II, III,

Q: 29 FX-Retail - An electronic trading platform for buying or selling foreign exchange by retail customers of Banks. Which of this statement is correct regarding FX-RETAIL PLATFORM?

a) This platform has been launched on August 05, 2019

b) It is Introduced by the Reserve Bank of India and developed by the Clearing Corporation of India Ltd

c) It is an electronic trading platform for buying or selling foreign exchange by retail customers of Banks.

d) All of the above