

UNDERGRADUATE PROGRAMME IN COMMERCE

SEMESTER VI

PAPER NO - 17: FOREIGN EXCHANGE MANAGEMENT

Marks: 100 (Theory = 75, Internal Assessment = 25)

Objective: The objective of this paper is to acquaint the students with foreign exchange markets and management in order to prepare them to operate in an increasingly global business scenario.

Lectures: 48

Unit I:

6 Lectures

International Monetary System: Evolution of the international monetary system: Bimetallism, Gold standard, Bretton Woods system, Flexible exchange rate regime, Current exchange rate arrangements

Unit II:

10 Lectures

Concepts and Provisions: Concepts of authorized person, current account transaction, capital account transaction, foreign exchange, person resident in India, Regulation and management of foreign exchange: dealing in foreign exchange, holding of foreign exchange, realization and repatriation of foreign exchange, contravention and penalties, enforcement of the orders of adjudicating authority, adjudication and appeal. Increasing importance of foreign exchange transactions due to globalization of business and emergence of globalized financial markets. Participants in foreign exchange market

Unit III:

10 Lectures

Foreign Exchange Markets: Spot market, spot rate quotations, bid-ask spreads, Trading in spot markets, Cross exchange rates

Forward Market: Concept of forward rate, long and short forward positions, forward premium and discount. Arbitrage, hedging and speculation

Unit IV:

14 Lectures

Exchange Rate Determination: Factors affecting exchange rate –Relative inflation rates, relative interest rates, relative income levels, government controls, expectations, etc. Government intervention and government influence on exchange rates. Theories of exchange rate – Purchasing Power Parity, Interest Rate Parity and Fisher's effect.

Unit V:

8 Lectures

Currency Derivatives: Currency forwards, futures, options and swaps.

READINGS:

Essential Readings:

1. Cheol S. Eun & Bruce G. Resnick, *International Financial Management*, McGraw Hill.
2. Madura, Jeff, *International Corporate Finance*, Cengage Learning.
3. Levi, Maurice, *International Finance*, New York, McGraw Hill Inc.

Suggested Readings:

1. Apte, P.G., *Multinational Financial Management*, New Delhi, Tata McGraw Hill, 1998

Note: Latest edition of text book may be used.