SEBI- GRADE A

FOREIGN EXCHANGE MARKET PRACTICE QUESTIONS

Q.1) Which of the following is not one of the merits of Flexible exchange rate system-

1.Deficit or surplus in BOP is automatically corrected by market adjustments and changes in exchange rate (fall in exchange rate leads to rise in exports and vice-versa)

2.There is a need for government to hold foreign exchange reserve and intervention is also required.

3.It helps in optimum resource allocation by allowing markets to adjust freely.

4.It frees the government from problem of BOP such that government can focus on other areas of national importance.

Codes:

[a]2 only

[b]2 & 3 only

[c]1,4 ,3 only

[d]4 only

Q.2) Which exchange rate system refers to a system of gradual adjustments in the exchange rate deliberately made by a central bank to influence the value of its own currency in relation to other currencies.

[a] Fixed Exchange rate

[b] Flexible exchange rate

[c] Managed Floating

[d] All of the above

Q.3) When central bank manipulates floating exchange rate to disadvantage of other countries, it is termed as-

[a]Managed floating

[b]Dirty Floating

[c]Manipulative floating

[d]Rigged Floating

Q.4) What is the price at which a bank or financial services firm is willing to buy a specific currency –

[a]Bid

[b]Ask

[c]Spread

[d]Net margin

Q.5) Which of the below mentioned term refers to the technique of protecting against the potential losses that result from adverse changes in exchange rates.

[a] Speculation

[b] Arbitrage

[c] Hedging

[d] Rigging

Q.6 Which of the below mentioned term refers to the practice of buying and selling a currency with the expectation that the value will change and result in a profit-

[a] Speculation

[b] Arbitrage

[c] Hedging

[d] Rigging

Q.7) If Canada is the domestic currency, 1.18 USD/CAD and means that USD$1 will purchase C$1.18 .Its is an example which type of quote-

[a]Direct Quote

[b]Indirect Quote

[c]American Terms

[d]European Terms

[e]Both A and C

Q.8) What kind of rate is the exchange rate between two currencies where neither of them is the official currency in the country in which the quote is provided.

[a] Direct Quote

[b] Indirect Quote

[c] Cross rate

[d] American terms

Q.9)Which of the below mentioned Contracts are settled on Marked to Market basis-

[a] Forwards

[b] Futures

[c] Derivatives

[d] Swaps