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| **SESSION** | **July 2023** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **IV** |
| **course CODE & NAME** | **DFIN402 – TREASURY MANAGEMENT** |
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**Assignment Set – 1**

**1. What is a Financial Instrument? Discuss any four major Money Market Instruments? 2+8**

**Ans 1.**

**Financial Instruments and Major Money Market Instruments**

A financial instrument refers to any tangible or intangible asset that represents a financial agreement between two parties. These agreements outline the terms and conditions regarding the transfer of value, which can be in the form of cash, equity, debt, or other rights. Financial instruments play a pivotal role in the global economy by facilitating the allocation of resources, managing risk, and providing investment opportunities. They are categorized into

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**2. “Credit control is enforced by RBI over Banks to regulate money supply.” Justify the statement by explaining tools used for controlling credit by RBI. 10**

**Ans 2.**

**Credit Control Tools Used by RBI to Regulate Money Supply**

The Reserve Bank of India (RBI), as the central bank of the country, plays a crucial role in controlling various aspects of the economy, including money supply and credit. One of the key functions of the RBI is to ensure price stability and promote economic growth, which is achieved through effective credit control measures. The statement "Credit control is enforced by RBI over Banks to regulate money supply" holds true as the RBI employs various tools to

**3. a. Differentiate between Liquidity and Solvency.**

**b. What are the objectives of Cash Management System?**

**Ans 3a.**

**Difference between Liquidity and Solvency**

Liquidity and solvency are two distinct concepts in the realm of finance, each playing a crucial role in assessing the financial health and stability of an entity, such as a company or an individual. While both concepts relate to an entity's ability to meet its financial

**Ans 3b.**

**Objectives of Cash Management System**

**Fulfill capital requirement:** The organization must maintain ample liquid cash to satisfy its routine expenses, which is possible only through effective cash management.

• **Planning capital expenditure:** It helps in planning the cost and determining the ratio of

**4. a) Briefly explain the factors that have an impact on forex trade.**

**Ans 4a.**

The forex trade has an impact of global milieu. The factors that have an impact on forex trade are as follows:

• **The political landscape:** An economy rises when the administration eagerly takes steps to improve the living standard of its population. Thus, a steady government may be the first

**b) Your company is expecting GBP 100000 after one month. The Indian rupee is weakening against GBP continuously.You are confident that it will further weaken till the end of the month.**

**Is your company carrying any exchange risk?What will be your action if you anticipate INR to improve in one month? 6+4**

**Ans 4b.**

In the context of merchant banking and financial services, exchange rate risk or currency risk arises when a company is exposed to potential losses due to fluctuations in exchange rates between two different currencies. In this scenario, where your company is expecting GBP

**5. What is Cash Conversion Cycle. Briefly explain Days inventory outstanding, Days sales outstanding and Days payable outstanding. What are the types of comparisons required to assess the effectiveness of cash conversion cycle management?**

**Ans 5.**

**Cash Conversion Cycle (CCC) and its Components:**

The Cash Conversion Cycle (CCC) is a crucial financial metric that measures the time it takes for a company to convert its investments in inventory and other resources into cash flows from sales. It essentially reflects the efficiency of a company's working capital

**6. a. Explain major techniques of Asset Liability Management.**

**Ans 6a.**

Asset Liability Management (ALM) is a strategic approach that financial institutions, particularly banks, use to effectively manage their assets and liabilities to ensure a balanced and sustainable financial position. ALM involves coordinating the management of various

**b. ABC bank invested in a 6 month deposit for Rs.1 crore at 3% (Floating Rate), in a 12-month bond @ 5.5% (Fixed rate Coupon payment every six months) for the similar amount. After six months, the deposit was renewed @ 3.5%.**

**i) Calculate NII for each six months period.**

**ii)How interest rate risk could have been avoided by the Bank in the given scenario?**

**Ans 6b.**

i) To calculate the Net Interest Income (NII) for each six-month period, we need to consider the interest earned and interest paid for both the deposit and the bond. Let's break down the calculations for each period: