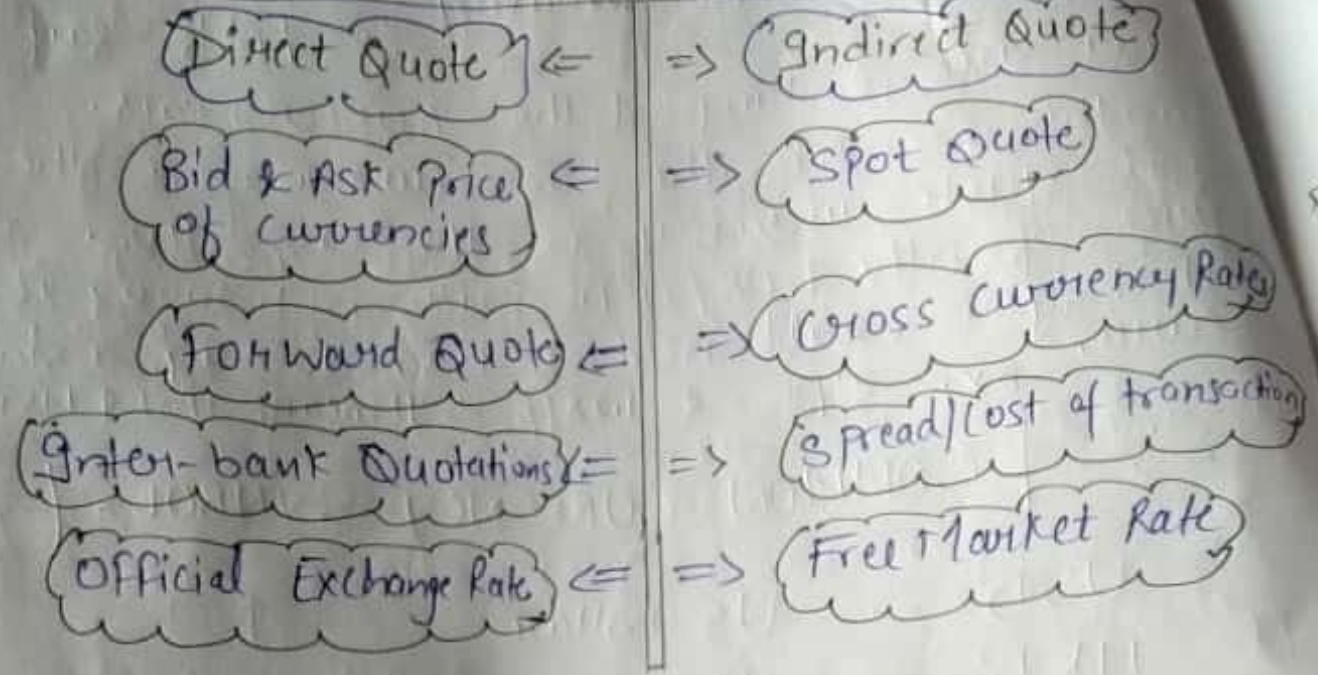


⇒ TYPES OF FOREIGN EXCHANGE QUOTA



(Buy low, sell high)

> DIRECT QUOTE

Price of foreign currency is quoted in terms of home currency.

- In this system variable units of home currency equivalent to a fixed unit of foreign currency are quoted.
- Domestic currency is quoted currency For Eg.
 - $\text{USD} / \text{INR} = 71.25 \text{ Rs.} / \$$

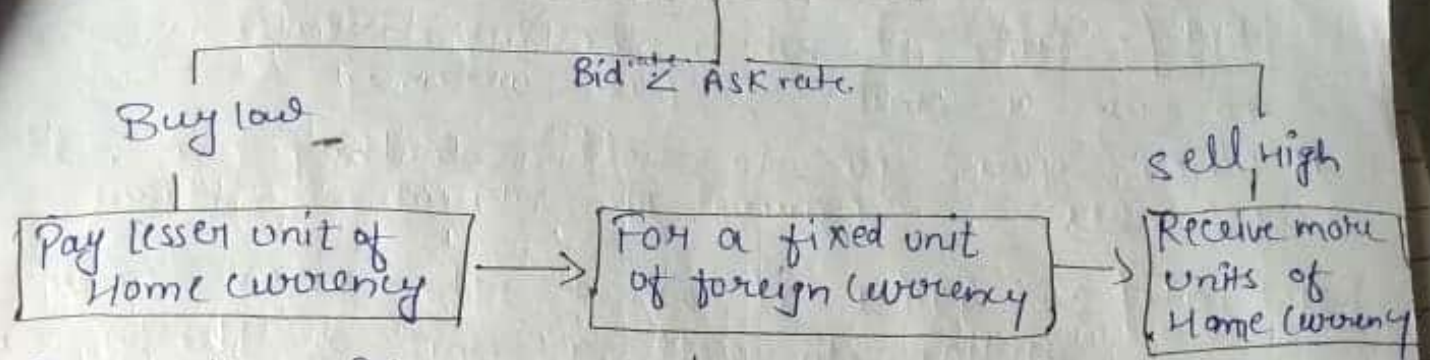
For Example $\text{GBP (Great Britain Pound)} / \text{INR}$
 base currency counter currency

□ Lower Exchange Rate in direct quote

domestic currency is appreciating value $\text{INR} \uparrow$

→ Under direct method exchange rate the principle adopted by the person is to buy at a lower price from customers and sell them at high price

Direct Quotation



★ In India, Direct Quotation was prevalent till 1966 after devaluation of Rupee in 1966.

Example $1 \$ = ₹60$

Foreign Home

1 unit of foreign currency -

> 2. Indirect Quote :- Bid rate $>$ Ask rate

Price of home currency is quoted in terms of foreign currency.

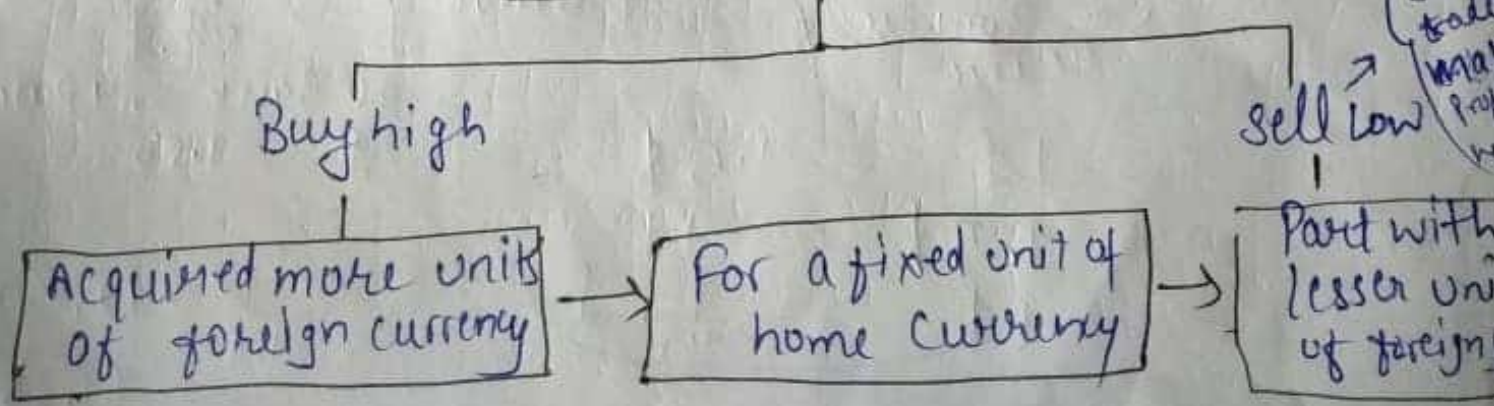
- In this system variable units of foreign currency equivalent to a fixed unit of home currency are quoted.
- Foreign currency is the quoted currency.

FOR Example :- $INR/USD = 0.016$

Person X → want to visit in US = 0.016 \$

so he has need to change home cur. in foreign.

Indirect Quotation



Because trade what profit

> 3 Bid & Ask Rates :-

Bid :- Price at which the forex dealer is willing to buy a unit of base currency

When you go to sell something you will get less... (general life statement for Producers)

Ask rate :- Price at which the forex dealer is willing to sell a unit of the base currency

When you go to buy the same thing, you will have to pay more...

Example :- With Two way quote

$$£ / \$ = 60 / 60.50$$

This shows the more value of dollar than £

Bid rate

Ask Rate

Rate at which Bank will Buy

rate at which Bank will sell

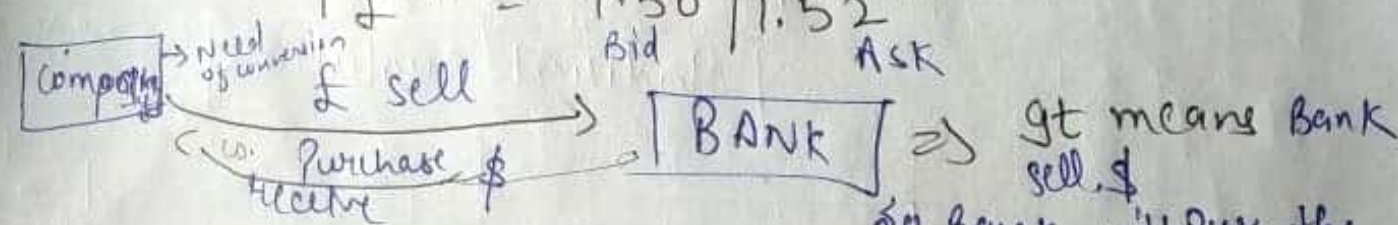
Bid If we sell 1\$ or convert then we get = £ 60

Ask If we purchase or require then we pay = £ 60.50

Suppose \Rightarrow We have to pay = 10,000 \$

Let Home currency = £

$$1 £ = 1.50 \text{ Bid} \quad | \quad 1.52 \text{ Ask}$$



$$1 £ = 1.5 \$$$

$$1.5 \$ = 1 £$$

$$1 \$ = \frac{1}{1.5} £ = \frac{1}{1.5} \times 10,000 = 6666.6 \$$$

4A **SPOT QUOTE**

cash/ready/Tod = T+0
Tomorrow = T+1
after Tomorrow = T+2

A contracted price for the purchase or sale of a commodity, security, currency for immediate delivery and payment on the spot date, which is normally one or two business day after the trade date.

The spot rate is the current price of the asset quoted for the immediate settlement of the spot contract.

Example

1. Contract for oil, wheat, or gold. This is because stocks always trade at spot.

2. If a wholesale company wants immediate delivery of orange juice in February, it will pay the spot price to the seller and have orange juice delivered within 2 days.

> The spot rate, also referred to as the "spot price" is the current market value of an asset at the moment of the quote.

5 **Forward Rate**

The forward exchange rate is the exchange rate at which a bank agrees to exchange one currency for another at a future date when it enters into a forward contract with an investor.

Multinational corporations, banks, and other financial institutions enter into forward contracts to take the advantage of the forward rate for hedging purposes.

9) Official Exchange Rate

Official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market.

It is calculated as an annual average based on monthly averages

10) Free Market Rate

The free market is an economic system based on supply and demand with little or no government control.

It is a summary description of all voluntary exchanges that place in a given economic environment.

A key feature of free markets is the absence of forced transactions or condition on transactions

Some exchanges may also take place in violation of government rules and regulations on the so-called "Black Market", which may be in some ways considered an underground version of free market.