ASSIGNMENT

Course Code	**:**	**MMPF - 010**
Course Title	**:**	**Currency and Debt Markets**
Assignment Code	**:**	**MMPF - 010/TMA/JULY/2026**
Coverage	**:**	**All Blocks**

Note: Attempt all the questions and submit this assignment to the Coordinator of your study centre. Last date of submission for July 2026 Semester is 31st October 2026 and for January 2027 Semester is 30th April 2027.

1. Explain the meaning and classification of currency pairs. Discuss the important terminology used in the Foreign Exchange Market. Differentiate between major, minor and exotic currency pairs with suitable examples.
2. Explain the concept, importance and major uses of Currency Derivatives. Discuss how Hedgers, Speculators and Arbitrageurs use the Currency Derivatives Market for risk management, profit-making and price correction.
3. Discuss the structure and classification of the Debt Market on the basis of maturity, market stage, issuer, instrument type, trading mechanism and place of issuance. Differentiate between the major segments under each basis of classification.
4. Explain the fundamental principle of Bond Valuation. Discuss the major factors affecting bond value and explain the inverse relationship between Bond Prices and Market Interest Rates.
5. Explain the Term Structure of Interest Rates. Discuss the different shapes of the Yield Curve and their economic interpretations. Also, explain the major theories of the term structure of interest rates.

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Answer

Meaning of a currency pair

Foreign exchange transactions always involve two currencies. Therefore, exchange rates are quoted in the form of a currency pair, such as EUR/USD, USD/JPY or USD/INR. The first currency in the pair is called the base currency and the second is called the quote or counter currency. The quoted rate tells us how many units of the quote currency are required to buy one unit of the base currency. For example, if EUR/USD is quoted at 1.1200, it means that one euro is worth 1.1200 US dollars.

A movement in a currency pair is always relative. If EUR/USD rises from 1.1200 to 1.1300, the euro has appreciated against the US dollar, or equivalently the US dollar has depreciated against the euro. This two-sided nature is the basic idea behind the foreign exchange market. Traders, banks and firms therefore analyse both currencies rather than treating the quoted price like the price of an ordinary commodity.

Classification of currency pairs

Currency pairs are commonly classified according to the currencies involved, their global trading volume, liquidity and transaction cost. The three widely used groups are major, minor and exotic pairs. Major pairs contain the US dollar and one of the other leading internationally traded currencies. Minor pairs, often called cross-currency pairs, combine major currencies but normally exclude the US dollar. Exotic pairs combine a major currency with the currency of an emerging or relatively smaller economy. This classification is useful because liquidity, spreads, volatility and market depth generally differ across the three groups.

Category	Typical feature	Examples	General market character
Major pairs	US dollar paired with another heavily traded currency.	EUR/USD, USD/JPY, GBP/USD, USD/CHF, AUD/USD	Very high liquidity, tighter spreads and continuous global participation.
Minor / cross pairs	Pair of important currencies in which the US dollar is generally absent.	EUR/GBP, EUR/JPY, GBP/JPY, AUD/NZD	Good liquidity, but usually less than the major pairs and sometimes wider spreads.