20 True or False

Decide, then check the answer and reason below each statement.

Question 1

FEMA, 1999 replaced the earlier FERA, 1973 as India's foreign exchange law.

TRUE

FEMA came into force in 1999, replacing the older, stricter FERA regime.

Question 2

FEDAI stands for Federal Exchange Dealers Association of India.

FALSE

FEDAI stands for Foreign Exchange Dealers Association of India, not Federal.

Question 3

SWIFT stands for Society for Worldwide Interbank Financial Telecommunication.

TRUE

SWIFT is the standard global network used for interbank payment messaging.

Question 4

CHIPS is primarily used to settle GBP payments.

FALSE

CHIPS settles USD payments; CHAPS is the system associated with GBP settlement.

Question 5

A Nostro account is our account held with a bank abroad in foreign currency.

TRUE

This matches the standard 'Nostro = ours' definition used in forex banking.

Question 6

A Vostro account is an Indian bank's own account held abroad in foreign currency.

FALSE

A Vostro account is a non-resident bank's account maintained with us, usually in rupees, not our account abroad.

Question 7

Depreciation refers to a market-driven fall in a currency's value.

TRUE

Depreciation happens due to market forces, unlike devaluation which is a deliberate official action.

Question 8

Devaluation is a market-driven fall in a currency's value.

FALSE

Devaluation is a deliberate official reduction in currency value, not a market-driven event.

Question 9

In balance of payments accounting, imports are generally recorded at CIF value.

TRUE

CIF valuation includes cost, insurance and freight for recorded imports.

Question 10

A credit entry in the balance of payments indicates a decrease in foreign exchange earnings.

FALSE

A credit indicates an earning of foreign exchange, a liability incurred abroad, or a decrease in an asset abroad.

Question 11

India primarily uses direct quotations for exchange rates.

TRUE

In India's direct quotation system, the foreign currency unit is fixed and price is quoted in rupees.

Question 12

In a direct quotation, the home currency unit is kept fixed.

FALSE

In a direct quotation it is the foreign currency unit that is fixed, not the home currency unit.

Question 13

Forward margin is also known as swap points.

TRUE

Swap points express the difference between spot and forward exchange rates.

Question 14

A currency with a lower interest rate tends to trade at a forward discount.

FALSE

Under interest rate parity, a lower-interest currency tends to trade at a forward premium, not a discount.

Question 15

Translation exposure does not directly lead to a change in cash flow.

TRUE

Translation exposure is an accounting restatement effect rather than an actual cash movement.

Question 16

The forward market is best suited to hedge translation exposure.

FALSE

The forward market is especially suited to hedge transaction exposure, not translation exposure.

Question 17

Authorised dealers under FEMA are classified into three categories.

TRUE

Category I, II and III authorised dealers are permitted different ranges of forex business.

Question 18

The SDR's value is based on a basket of major currencies.

TRUE

Special Drawing Rights derive their value from a weighted basket of major world currencies.

Question 19

FEDAI sets the interest rates payable on domestic savings bank accounts.

FALSE

FEDAI governs forex market conventions like market hours and forward contracts, not domestic savings interest rates.

Question 20

Covered interest arbitrage exploits interest rate differentials while eliminating exchange risk.

TRUE

It combines a money-market transaction with a forward cover to lock in a riskless return.