

i Information about the examination



EXAMINATION

Course code and -name:

SFB12614 International Finance

Date and duration:

May 7 2018, 4 hours

Permitted sources:

Mother tongue – English dictionary

English – Mother tongue dictionary

Approved calculator

Lecturer:

Mehtap Aldogan Eklund

Language:

You should answer all the questions in English.

The examination:

The exam consists of **two sections** - multiple choice and open-ended questions.

In the first section, you have multiple choice. Then, please select the correct answer.

In the second section, you have open response questions; then you should type your answer, explanations, computation in detail.

You have to reply all questions in both sections.

In section 1 [total: 30 points], **you have 15 multiple-choice questions.** The suggested time to answer the questions in section one is between 50 to 60 minutes.

In section 2 [total: 70 points], **you have 7 open response questions, some of them include a couple of sub-questions, and you have to answer all of them.** The suggested time to answer the questions in section two is 140 minutes.

In the remaining 40 minutes, you can turn back to the questions that you have difficulties to solve.

You have to show all your calculations if it requires computation, including the questions in the multiple choice section.

If there is no computation for the questions requiring calculation in your answer sheet, then we can never evaluate your level of knowledge, and you may get some point for the right answer, but not receive full points even though your answer is right.

If you use a symbol or abbreviation and if it is not explained or given in the question or text, then please explain all symbols and abbreviations that are used by you.

The numbers in square brackets [.] indicate the maximum amount of points obtainable for the question or sub-question. Total points obtainable in the exam are 100 points.

Date of announcement of the examination results: May 28 2018

The examination results are available on the Studentweb. The grading scale is from A to F. The criteria for each grading scale is available at HIOF's web page.

i Section 1: Multiple choice [total: 30 points]

[Each question in this section is 2 points]:

In this section, you have multiple choice questions. Then, please **select one correct answer for each question** from the provided four multiple choices.

You have to show all your calculations if it requires computation. You have to reply all questions.

The suggested time to answer the questions in section 1 is between 50 to 60 minutes.

1 Question 1.1

The asset market approach to forecasting assumes that whether foreigners are willing to hold claims in monetary form depends on an extensive set of investment considerations. These include all but which of the following choices?

Select an alternative

- Political safety
- All of the above are considered by investors in their decision process
- Relative real interest rates
- Capital market liquidity

2 Question 1.2

Spanish Enterprises, the currency speculator, sells two June futures contracts for 125,000 Euros (€) at the settlement price (June futures settle price) of \$0.1500/Euro. What is the value of its position at maturity if the ending spot rate is \$0.2000/€?

Select an alternative

- Profit of \$12,500
- Profit of \$15,200
- Profit of \$15,200
- Loss of \$12,500

Show your calculation:

3 Question 1.3

_____ investments are designed to deny those same opportunities to the firm's competitors.
_____ investments are designed to promote and enhance the growth and profitability of the firm.

Select an alternative

- Aggressive; Proactive
- Conservative; Aggressive
- Proactive; Defensive
- Defensive; Proactive

4 Question 1.4

Which of the following is NOT a technique used by governments or central banks to impact domestic currency valuation?

Select an alternative

- Indirect Intervention
- Capital Controls
- Direct Intervention
- All of the above are techniques used to control currency valuation

5 Question 1.5

Under _____ system, currencies are predominantly market-driven.

Select an alternative

- Flexible arrangement
- Soft pegs
- Residual agreement
- Hard pegs

6 Question 1.6

The Dealer makes money on currency exchanges quotes.

_____ is the price (exchange rate) in one currency at which a dealer will buy another currency.

_____ is the price (exchange rate) at which a dealer will sell the other currency.

Select an alternative

- Buy rate; Bid rate
- Ask rate; Offer rate
- Offer rate; Ask rate
- Bid rate; Offer rate

7 Question 1.7

In February 2017, the Peso changed in value from Peso 2.40/\$ to Peso 2.00/\$, thus, the Peso _____ against the U.S. dollar.

Select an alternative

- Weakened
- Strengthened
- Remained neutral
- All of the above

8 Question 1.8

The Hong Kong dollar has long been pegged to the U.S. dollar at HK\$7.20/\$. When the Chinese yuan was revalued in July 2006 against the U.S. dollar from Yuan 8.38/\$ to Yuan 9.11/\$. After the revaluation in July 2016, what is the cross currency rate of HK\$ per Yuan and how did the value of the Hong Kong dollar change against the yuan?

Select an alternative

- Yuan 1.27/HK\$, as a result of the revaluation of the Chinese yuan, the Hong Kong dollar (HK\$) has *decreased* in value against the Chinese yuan.
- Yuan 1.16/HK\$, as a result of the revaluation of the Chinese yuan, the Hong Kong dollar (HK\$) has *decreased* in value against the Chinese yuan.
- Yuan 1.27/HK\$, as a result of the revaluation of the Chinese yuan, the Hong Kong dollar (HK\$) has *increased* in value against the Chinese yuan.
- Yuan 1.16/HK\$, as a result of the revaluation of the Chinese yuan, the Hong Kong dollar (HK\$) has *increased* in value against the Chinese yuan.

Show your calculation:

9 Question 1.9

The phase of the globalization process characterized by imports from foreign suppliers and exports to foreign buyers is called the:

Select an alternative

- Multinational trade phase
- Transnational trade phase
- International trade phase
- Import-export trade phase

10 Question 1.10

If the goal were to increase the value of a country's currency - to fight a depreciation of the domestic currency in exchange for foreign currency - the central bank would:

Select an alternative

- Buy its own currency in exchange for foreign currency
- Sell its own currency in exchange for foreign currency
- Follow an expansive monetary policy
- Drive real rates of interest down

11 Question 1.11

What is the right chronological order of the evolution of the global monetary systems:

Select an alternative

- The Gold Standards → Inter War Years → Bretton Woods → Floating Exchange Rates
- Inter War Years → The Gold Standard → Emerging Era → Floating Exchange Rates
- The Gold Standards → Inter War Years → Floating Exchange Rates → Bretton Woods
- Inter War Years → The Gold Standard → Floating Exchange Rates → Emerging Era

12 Question 1.12

If the Exchange rate quotation is declared as \$0.25/TRL. Then, which of the statements below (I to IV) are correctly explaining the declared quotation.

- I) 0.25 Turkish Lira per Dollar
- II) 0.25 Dollar per Turkish Lira
- III) TRL/\$ 0.25
- IV) \$/TRL 4

Select an alternative

- I, III, IV are correctly explaining the exchange rate quotation of \$0.25/TRL
- I, II, III are correctly explaining the exchange rate quotation of \$0.25/TRL
- II, III, IV are correctly explaining the exchange rate quotation of \$0.25/TRL
- I, II, III, IV are correctly explaining the exchange rate quotation of \$0.25/TRL

13 Question 1.13

According to the terminology associated with changes in currency values, which of the following choices is the case when a currency's value relative to other currencies is changed by market forces of supply and demand (market drivers)?

Select an alternative

- Depreciation and appreciation
- Devaluation and revaluation
- Devaluation and appreciation
- Depreciation and revaluation

14 **Question 1.14**

_____ swap requires the discounting of the remaining cash flows under the swap agreement at current interest rates, then converting the target currency back to the home currency of the firm.

Select an alternative

- Interest Rate
- Plain-Vanilla
- Unwinding Currency
- Cross Currency

15 **Question 1.15**

Companies with high credit quality use _____ swap market to alter their fixed/floating composition without the origination and registration fees of the direct debt markets.

Select an alternative

- The equity
- The commodity
- The plain-vanilla
- The credit default

i Section 2: Open response questions [total: 70 points]

In this section, you have *open response* questions; then you should type your answer, explanations in detail.

You have to show all your calculations if it requires computation.

You have to reply all questions. The suggested time to answer the questions is 140 minutes, approximately for each question 20 minutes.

16 **Question 2.1 [10 points]**

There is a 'trade dilemma' in the international trade. The trade dilemma can be described as follows: The importer (buyer) prefers to pay after the goods received. On the other hand, exporter (seller)

prefers that importer (buyer) first pay for the goods, and then exporter ships the goods after being paid.

Consider that importer is an 'unaffiliated unknown party'. In other words, importer and exporter have no historical business relationship.

In that case, how can you solve this 'trade dilemma' in the international trade finance to help exporter and importer trade internationally by avoiding the risk of non-completion or counter-party risk?

Please support your answer by explaining and discussing it in detail.

Fill in your answer here

17 Question 2.2 [10 points]

Alison Blue is very keen in following the price changes in exchange rates, she buys Financial Times and follow up the daily price changes between Euro and USD dollar. She noted that in May 2017, the exchange rate was USD/EUR 0.90, and in June 2017, it changed to USD/EUR 0.82.

Could you please help Alison find the percentage of change (%) in the value of Euro?

Fill in your answer here

18 Question 2.3 [10 points]

What are the differences between forfaiting and factoring? Please fill in the blanks in the table below [5 points] and explain your answers [5 points].

You can copy (ctrl c or command c) this table into your answer window.

	Forfaiting	Factoring
Type:		
Maturity:		
Financed:		
Secondary Market:		
Types of Trade:		
Letter of Credit (L/C):		

Fill in your answer here

19 Question 2.4 [Total 10 points: Each difference with explanation is 2 points]

What are the five main differences between Foreign Currency *Future Contracts* and Foreign Currency *Forward Contracts*?

Please name the differences and explain them.

Foreign Currency Future Contracts

- 1.
- 2.

- 3.
- 4.
- 5.

Foreign Currency Forward Contracts

- 1.
- 2.
- 3.
- 4.
- 5.

Fill in your answer here

20 **Question 2.5. a) and 2.5. b) [Total 11 points]**

Exchange rate determination is complex.

2.5. a) [total 5 points, the naming of each factor is 0.5 point and explaining it 0.5 points]:

There are various factors (determinants) having an impact on the Exchange rates. Could you please *name five factors* influencing the exchange rate and *shortly mention how they are affecting it*.

2.5. b) [total 6 points, the naming of each factor is 1 point and explaining it 1 point]:

Explain the **three major theoretical approaches** (school of thoughts) **to exchange rate determination**. Please *name* of each theoretical approach and *shortly describe it by mentioning* the key determinants of foreign exchange rates for each theoretical approach.

Fill in your answer here

21 **Question 2.6. a), 2.6. b) and 2.6. c) [Total 9 points]**

Use the table below to answer the following questions below.

The table below indicates April 10, 2016, British Pound (£) Option Prices (cents per pound, 61,000 pound contracts)

Option&Underlying	Exercise Price	Calls-Last			Puts-Last		
		May	June	July	May	June	July
1444	1430	0.90	1.38	1.40	0.60	1.06	1.60

2.6. a) [2 points]

What was the closing price of the British pound on April 9, 2016 (USD Dollar Price per British Pound)? (Answer: \$ _____/£)

2.6. b) [Total 3 points, each blank is 1 point]

The strike price of _____ giving the purchaser the right of buy pounds in July has a cost per pound _____ of for total price of _____.

2.6. c) [4 points]

A buyer of a put option for December 2017 has been informed that the option on Mexican Peso has a strike price of \$10/Peso and a cost of \$0.05. The spot rate in December is \$12/Peso. What is the profit or loss for the buyer of a put option?

Fill in your answer here

22 **Question 2.7. a) and 2.7. b) [10 points]**

2.7. a) [3 points, each blank is 1 point]

The speculator believes that Swiss Franc (CHF) will rise in value versus US Dollar by the end of the year. Then, the speculator that has _____ (**Bought** or **Sold**) a futures contract on _____ (**USD Dollar \$** or **Swiss Franc CHF**), so he has taken a _____ (**Short** or **Long**) position.

2.7. b) [7 points]

The speculator sells five British pound futures contract for \$2.00/£. The maturity of the futures contract is May 2017. Each pound futures contract is for an amount of £62,500, and the spot rate at the maturity is \$2.25/£. What is the value of her position at maturity?

Fill in your answer here