Høgskolen i Østfold

EXAMINATION

Course Code: SFB12614	**Course:** International Finance
Date: May 6, 2019	**Duration of Exam:** 4 hours
Permitted Sources: English-mother tongue –English dictionary Calculators	**Lecturer:** Mehtap Aldogan Eklund

Language: You should answer all of the questions in English.

The examination papers consist of 7 (seven) pages including this page. The exam consists of two sections: multiple choice and open-ended questions. In the first section, you have *open response* questions; then you should write your answer, explanations, computation in detail. In the second section, you have *multiple choice*. Then, please select the correct answer. **You have to reply to all the questions in both sections.**

Overall, you have 22 questions [100 points] **in the exam. In section 1** [total: 72 points]**, you have eight 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 section 2** [total: 28 points]**, you have 14 multiple-choice questions.** The suggested time to answer the questions in section one is between 50 to 60 minutes.
In the remaining 40 minutes, you may turn back to the questions that you have difficulties to solve.

<u>You have to show all your calculations</u> 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.

The results will be announced om Studentweb May 27, 2019

SECTION 1: 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 to all questions**. The suggested time to answer the questions is 140 minutes, approximately for each question 20 minutes.

Question 1 [*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?

Question 2 [Total 10 points]**:**

Q2.1 [3 points, each blank is 1 point]: **Fill in the blanks**

The speculator believes that Swiss Franc (CHF) will rise in value versus the US Dollar by the end of the year. Then, the speculator that has (1)________ a futures contract on (2) ___________, so he has taken a (3)________ position.

To fill in the blanks in (1) – Select one right answer: A) Bought B) Sold

To fill in the blanks in (2) – Select one right answer: A) USD Dollar $ B) Swiss Franc CHF

To fill in the blanks in (3) – Select one right answer: A) Short B) Long

Q2.2 [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?

Question 3 [*10 points*]**:** There is a 'trade dilemma' in 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 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.

Question 4 [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)

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

Q4.1 [2 points]**: What was the closing price of the British pound on April 9, 2016 (**USD Dollar Price per British Pound)**?**

Answer: $____/£

Q4.2 [3 points, each blank is 1 point]**: Fill in the blanks**

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

Q4.3 [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?

Question 5 [2 points]: **Fill in the blanks**
Jack is walking down in New York City and is planning his next trip to Spain. He decides to visit the Forex dealer to convert the US Dollar to Euro. He states that "**it costs him 0.90 euros per dollar**". Please disclose the foreign exchange rate between the Euro and US Dollar according to the following terms of currency quotations.

Based on European Term:________________

Based on American Term:_________________

Based on Direct Quote: __________________

Based on Indirect Quote: __________________

Question 6 [total *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 in a paragraph *[5 points*].

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

Explain your answers.

Question 7 *[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	**Foreign Currency Future Contracts**

Question 8 [Total *11 points*]**:** Exchange rate determination is complex.

Q8.1 [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*.

Q8.2 [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.

SECTION 2: MULTIPLE CHOICES [total: 28 points]

[*Each question 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 from A to D. <u>You have to show all your calculations</u> if it requires computation. **You have to reply to all questions**. The suggested time to answer the questions in section 2 is between 50 to 60 minutes.

Question 9: Spanish Enterprises, the currency speculator, <u>sells two</u> 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/€?
A) Profit of $12,500
B) Profit of $15,200
C) Loss of $12,500
D) Profit of $ 15,200

Show your calculation:

Question 10: The risk is defined as "the uncertainty about outcomes or events, especially regarding the future". Total risk is made up of Systematic and Unsystematic risks. Which one of synonym terms of risks below is mainly in the scope of the International Finance?
A) Firm-Specific risk,
B) Diversifiable risk
C) Non-Eliminated risk
D) Residual or Idiosyncratic risk

Question 11: The Hong Kong dollar has long been pegged to the U.S. dollar at HK$7.20/$. When the Chinese yuan was changed in July 2006 against the U.S. dollar from Yuan 8.38/$ to Yuan 9.11/$. <u>After the change</u> in July 2016, what is the cross currency rate of HK$ per Yuan and how did the value of the Hong Kong dollar change against the yuan?

A) 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.

B) 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.

C) 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.

D) 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.

Show your calculation:

Question 12: Which of the following is NOT a technique used by governments or central banks to impact domestic currency valuation?
A) Indirect Intervention
B) Direct Intervention
C) Indirect control over the management of the government
D) Capital Controls

Question 13: 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.

A) Ask rate, Offer rate
B) Buy rate, Bid rate
C) Bid rate, Offer Rate
D) Offer rate, Ask rate

Question 14: The theory of _____________________ is one of the underlying principles driving the growth of global business, and it that suggests specialization by country can increase worldwide production.
A) Tequila Effect
B) Fischer Effect
C) Specialization
D) Comparative advantage

Question 15: Under ______________ system, currencies are predominantly market-driven.
A) soft pegs
B) flexible arrangement
C) hard pegs
D) residual agreement

Question 16: The phase of the globalization process characterized by imports from foreign suppliers and exports to foreign buyers is called the:
A) international trade phase.
B) multinational trade phase.
C) transnational trade phrase
D) import-export trade phase.

Question 17: 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:
A) buy its own currency in exchange for foreign currency.
B) follow an expansive monetary policy.
C) drive real rates of interest down.
D) sell its own currency in exchange for foreign currency.

Question 18: In February 2017, the Peso changed in value from Peso 2.40/$ to Peso 2.00/$, thus, the Peso ________ against the U.S. dollar.
A) strengthened
B) weakened
C) remained neutral
D) all of the above

Question 19: 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.
A) I, II, III are correctly explaining the exchange rate quotation of $0.25/TRL
B) II, III, IV are correctly explaining the exchange rate quotation of $0.25/TRL
C) I, III, IV are correctly explaining the exchange rate quotation of $0.25/TRL
D) I, II, III, IV are correctly explaining the exchange rate quotation of $0.25/TRL

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

Question 20: 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)?
A) depreciation and revaluation
B) devaluation and appreciation
C) devaluation and revaluation
D) depreciation and appreciation

Question 21: What is the right chronological order of the evolution of the global monetary systems:
A) Inter War Years→ The Gold Standard→Floating Exchange Rates→ Emerging Era
B) Inter War Years→ The Gold Standard→ Emerging Era→ Floating Exchange Rates
C) The Gold Standards→Inter War Years→Floating Exchange Rates→ Bretton Woods
D) The Gold Standards→Inter War Years→Bretton Woods→Floating Exchange Rates

Question 22: Which is NOT the individual benefits of foreign currency derivatives?
A) Make underlying markets more efficient
B) Minimize earnings volatility
C) Motivate the employees
D) Reduces Tax Liabilities