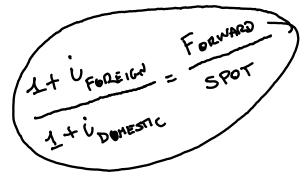


## Universidad de Barcelona

3<sup>rd</sup> course: Financial Management *Professor: Altina Sebastián González* 

## Exercises Topic 9: Currency Risk Management (I)

- 1. A quotation in the form yen 89,33/\$US is called
  - an indirect quote in the United States.
  - b. a direct quote in the United States.
  - c. a cross-rate in Japan.
  - d. None of these options are correct.
- 2. If the direct quotation for the euro is \$1,3565/euro, what is the size of the indirect quotation?
  - a. 0,2415
  - b. 0,6435
  - 0,7372
  - d. 0,3565
- 3. The spot USD/GBP exchange rate is USD1,99/GBP. What is the indirect quote?
  - a. GBP 0,6500/USD
  - **M.** GBP 0,5025/USD
  - c. GBP 1,2845/USD
  - d. GBP 1,4875/USD
- 4. One can describe a currency forward contract as
  - a. agreeing today to buy or sell a specified amount of a currency at a later date at a price set in the future.
  - b. agreeing today to buy or sell a specified amount of a currency today at its current price.
  - **Solution** agreeing today to buy or sell a specified amount of a currency at a later date at a price set today.
  - d. agreeing today to buy or sell a specified amount of a currency today at a price that will be determined at a later date.
- 5. The spot yen/\$US exchange rate is yen119,795/\$US, and the one-year forward rate is yen114,571/\$US. If the annual interest rate on dollar CDs is 6 percent, what annual interest rate would you expect on yen CDs?
  - **X.** 1.38 percent
  - b. 5,32percent
  - c. 8,06 percent
  - d. 17,14 percent
- 6. The spot GBP/USD exchange rate is 0,5025/USD, and the one-year forward rate is GBP 0,5048/USD. If the annual interest rate on dollar CDs is 6 percent, what would you expect the annual interest to be on GBP CDs?
  - a. 5,52%
  - **X**. 6,49%
  - c. 3,55%
  - d. 8,25%





- 7. The spot exchange rate for British pounds is 0,5025 (GBP/USD). The one-year risk-free rates in the United States and Britain are 3 percent and 2,75 percent, respectively. What is the forward exchange rate in GBP/USD?
  - a. 0,6170
  - b. 0,5037
  - 0,5013
  - d. 0,6050
- 8. The spot yen/US dollar exchange rate is 119,795 yen/\$US. The three-month forward rate is 118,397 yen/\$US. What is the yen's forward premium (or discount) on the dollar, expressed as an annual percentage?
  - a. 6,5 percent discount
  - b. 4,7 percent premium
  - c. 6,5 percent premium
  - **★** 4,7 percent discount
- 9. The current spot rate is GBP 0,5024/USD. The three-month forward rate is GBP 0,5040/USD. The TE Company expects a payment of GBP 100 million in three months. If the firm hedges this transaction in the forward market, what is the USD amount it will receive in three months?
  - X. USD198.41 million
  - b. USD199.04 million
  - c. USD 50.40 million
  - d. USD 50.24 million
- 10. Suppose that the G Company knows that in one month it must pay £7 million for goods that its U.S. subsidiary will receive in Britain. The current exchange rate is \$1.99/£. The risk that the corporate treasurer faces is that
  - a. the \$US/pound exchange rate falls in a month's time (i.e., the pound weakens).
  - the \$US/pound exchange rate rises in a month's time (i.e., the pound strengthens).
  - c. the \$US/pound exchange rate does not change from its current position.
  - d. the pound exchange rate falls in a month's time (i.e., the pound strengthens).