

Universitat de Barcelona

3rd course: Financial Management

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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
 - ☒ c. 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
 - ☒ b. 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.
 - ☒ c. 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?
 - ☒ a. 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%
 - ☒ b. 6,49%
 - c. 3,55%
 - d. 8,25%

$$\frac{1 + i_{\text{FOREIGN}}}{1 + i_{\text{DOMESTIC}}} = \frac{\text{FORWARD}}{\text{SPOT}}$$

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
 - ☒ c. 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
 - ☒ d. 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?
 - ☒ a. 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).
 - ☒ b. 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).