COLEGIO MAYOR DE NUESTRA SEÑORA DEL ROSARIO
International Finance

Review No. 2ª

Multiple selection: Select the right answer and give a short explanation of your answer.

1. Which of the following is most accurate regarding derivatives?
    a. Exchange-traded derivatives are created and traded by dealers in a market with no central location.
    b. Derivative values are based on the value of another security, index, or rate.
    c. Derivatives have no default risk.
2. Over-the- counter derivatives:
    a. are customized contracts.
    b. have good liquidity in the over-the-counter (OTC) market.
    c. are backed by the OTC Clearinghouse.
3. Which of the following is NOT an over-the-counter (OTC) derivative?
    a. A futures contract.
    b. A forward contract.
    c. A bond option.
4. Which of the following definitions involving derivatives is least accurate?
    a. An option writer is the seller of an option.
    b. A call option gives the owner the right to sell the underlying good at a specific price for a specified time period.
    c. An arbitrage opportunity is the chance to make a riskless profit with no investment
5. Which of the following is most likely an exchange-traded derivative?
    a. Equity index futures contract.
    b. Bond option.
    c. Currency forward contract.

6. A derivative security:
    a. has a value based on another security or index.
    b. has no default risk.

c. has a value based on stock prices.

7. A financial instrument that has payoffs based on the price of an underlying physical or financial asset is a(n):
    a. option.
    b. future.
    c. derivative security.
8. A derivative security:
    a. is one that is based on the value of another security.
    b. is like a callable bond.
    c. has a value dependent on the shape of the yield curve.
9. Which of the following statements regarding exchange-traded derivatives is NOT correct? Exchange-traded derivatives:
    a. are illiquid.
    b. often trade in a physical location.
    c. are standardized contracts.
10. Which statement does NOT characterize a forward contract?
    a. Valuation can be estimated at any point before maturity.
    b. Action is taken in the future.
    c. Regulation is not an issue.
11. The process of arbitrage does all of the following EXCEPT:
    a. insure that risk-adjusted expected returns are equal.
    b. promote pricing efficiency.
    c. produce riskless profits.

Main concepts from your readings.

1. What are the three main sources of financing for any firm?

2. What is the difference between a centralized and decentralized debt denomination for an MNC?

3. Will an MNC issuing debt in low-interest-rate currencies necessarily lower its cost of funds? Why?

4. Should an MNC borrow primarily short term when short-term interest rates are lower than long-term interest rates? Or should it keep the maturity the same but use a floating-rate loan rather than a fixed rate loan? Explain.

5. What is financial disintermediation?

6. What are the two main segments of the international bond market, and what types of regulations apply to them?

7. What is the difference between a foreign bond and a Eurobond?

8. Why might U.S. investors continue to purchase Eurobonds, despite the fact that the U.S. corporate bond market is well developed?

9. What is a global bond, and what role does the global bond market play in the blurring of the distinctions in the international bond market?

10. What are the differences between a straight bond, a floating-rate note, and a convertible bond?

11. What is a dual-currency bond?

12. What kind of activities do international banks engage in?

13. Why is there a need for international banking regulation?

14. What are the differences between credit risk, market risk, and operational risk?

15. What is systemic risk?

16. Which activity would require the largest capital charge under the 1988 Basel Accord: a loan to another bank or a loan to a large MNC? Would this necessarily be true under the Basel II rules?

17. What is VaR?*

18. What is the difference between a foreign branch and a subsidiary bank?

Problems.

Bekaert & Hodrick, chapter 11. Problems 1, 2, 3,and 4.

Bekaert & Hodrick, chapter 12. Problems 1 and 2.