



COLEGIO MAYOR DE NUESTRA SEÑORA DEL ROSARIO
International Finance

Review No. 1A

Note: In quoting Exchange rate, the first currency denotes the base (i.e USD/COP refers to how many COP you pay for one USD)

1. An exchange rate:
 - A. is most commonly quoted in real terms.
 - B. is the price of one currency in terms of another.
 - C. between two currencies ensures that they are fully convertible.
2. A decrease in the real exchange rate (quoted in terms of domestic currency per unit of foreign currency) is *most likely* to be associated with an increase in which of the following?
 - A. Foreign price level
 - B. Domestic price level
 - C. Nominal exchange rate
3. In order to minimize the foreign exchange exposure on a euro-denominated receivable due from a German company in 100 days, a British company would *most likely* initiate a:
 - A. spot transaction.
 - B. forward contract.
 - C. real exchange rate contract.
4. Which of the following counterparties is *most likely* to be considered a sell-side foreign exchange market participant?
 - A. A large corporation that borrows in foreign currencies
 - B. A sovereign wealth fund that influences cross-border capital flows
 - C. A multinational bank that trades foreign exchange with its diverse client base
5. What will be the effect on a direct exchange rate quote if the domestic currency appreciates?
 - A. Increase
 - B. Decrease
 - C. No change
6. An executive from Switzerland checked into a hotel room in Spain and was told by the hotel manager that 1 EUR will buy 1.2983 CHF. From the executive's perspective, an indirect exchange rate quote would be:
 - A. 0.7702 EUR per CHF.
 - B. 0.7702 CHF per EUR.
 - C. 1.2983 EUR per CHF.
7. Over the past month, the Swiss franc (CHF) has depreciated 12 percent against pound sterling (GBP). How much has the pound sterling appreciated against the Swiss franc?
 - A. Exactly 12 percent
 - B. Less than 12 percent
 - C. More than 12 percent

8. An exchange rate between two currencies has increased to 1.4500. If the base currency has appreciated by 8 percent against the price currency, the initial exchange rate between the two currencies was *closest* to:
- A. 1.3340.
 - B. 1.3426.
 - C. 1.5660.

The following information relates to Questions 9 and 10.

A dealer provides the following quotes:

Ratio	Spot Rate
CNY/HKD	0.8422
CNY/ZAR	0.9149
CNY/SEK	1.0218

9. The spot ZAR/HKD cross-rate is *closest* to:
- A. 0.9205.
 - B. 1.0864.
 - C. 1.2978.
10. Another dealer is quoting the ZAR/SEK cross-rate at 1.1210. The arbitrage profit that can be earned is *closest* to:
- A. ZAR3,671 per million SEK traded.
 - B. SEK4,200 per million ZAR traded.
 - C. ZAR4,200 per million SEK traded.
11. A BRL/MXN spot rate is listed by a dealer at 0.1378. The six-month forward rate is 0.14193. The six-month forward points are *closest* to:
- A. -41.3.
 - B. +41.3.
 - C. +299.7.
12. A three-month forward exchange rate in CAD/USD is listed by a dealer at 1.0123. The dealer also quotes three-month forward points as a percentage at 6.8 percent. The CAD/USD spot rate is *closest* to:
- A. 0.9478.
 - B. 1.0550.
 - C. 1.0862.
13. If the base currency in a forward exchange rate quote is trading at a forward discount, which of the following statements is *most* accurate?
- A. The forward points will be positive.
 - B. The forward percentage will be negative.
 - C. The base currency is expected to appreciate versus the price currency.

14. A forward premium indicates:
- A. an expected increase in demand for the base currency.
 - B. that the interest rate is higher in the base currency than in the price currency.
 - C. that the interest rate is higher in the price currency than in the base currency.
15. The JPY/AUD spot exchange rate is 82.42, the JPY interest rate is 0.15 percent, and the AUD interest rate is 4.95 percent. If the interest rates are quoted on the basis of a 360-day year, the 90-day forward points in JPY/AUD would be *closest* to:
- A. -377.0.
 - B. -97.7.
 - C. 98.9.
16. Which of the following is *not* a condition of an ideal currency regime?
- A. Fully convertible currencies
 - B. Fully independent monetary policy
 - C. Independently floating exchange rates
17. In practice, both a fixed parity regime and a target zone regime allow the exchange rate to float within a band around the parity level. The *most likely* rationale for the band is that the band allows the monetary authority to:
- A. be less active in the currency market.
 - B. earn a spread on its currency transactions.
 - C. exercise more discretion in monetary policy.
18. A fixed exchange rate regime in which the monetary authority is legally required to hold foreign exchange reserves backing 100 percent of its domestic currency issuance is best described as:
- A. dollarization.
 - B. a currency board.
 - C. a monetary union.
19. A country with a trade deficit will *most likely*:
- A. have an offsetting capital account surplus.
 - B. save enough to fund its investment spending.
 - C. buy assets from foreigners to fund the imbalance.
20. A large industrialized country has recently devalued its currency in an attempt to correct a persistent trade deficit. Which of the following domestic industries is *most likely* to benefit from the devaluation?
- A. Luxury cars
 - B. Branded prescription drugs
 - C. Restaurants and live entertainment venues
21. A country with a persistent trade surplus is being pressured to let its currency appreciate. Which of the following *best* describes the adjustment that must occur if currency appreciation is to be effective in reducing the trade surplus?
- A. Domestic investment must decline relative to saving.
 - B. Foreigners must increase investment relative to saving.
 - C. Global capital flows must shift toward the domestic market.

Problems from CH2.

1. Mississippi Mud Pies, Inc. needs to buy 1,000,000 Swiss francs (CHF) to pay its Swiss chocolate supplier. Its banker quotes bid–ask rates of CHF1.3990–1.4000/USD. What will be the dollar cost of the CHF1,000,000?
2. If the Japanese yen–U.S. dollar exchange rate is ¥104.30/\$, and it takes 25.15 Thai bahts to purchase 1 dollar, what is the yen price of the baht?
3. As a foreign exchange trader, you see the following quotes for Canadian dollars (CAD), U.S. dollars (USD), and Mexican pesos (MXN):
USD0.7047/CAD MXN6.4390/CAD MXN8.7535/USD

Is there an arbitrage opportunity, and if so, how would you exploit it?

4. The Mexican peso has weakened considerably relative to the dollar, and you are trying to decide whether this is a good time to invest in Mexico. Suppose the current exchange rate of the Mexican peso relative to the U.S. dollar is MXN9.5/USD. Your investment advisor at Goldman Sachs argues that the peso will lose 15% of its value relative to the dollar over the next year. What is Goldman Sachs's forecast of the exchange rate in 1 year?
5. Deutsche Bank quotes bid–ask rates of \$1.3005/€ - \$1.3007/€ and ¥104.30 - 104.40/\$. What would be Deutsche Bank's direct asking price of yen per euro?
6. Alumina Limited of Australia has called Mitsubishi UFJ Financial Group to get its opinion about the Japanese yen–Australian dollar exchange rate. The current rate is ¥67.72/A\$, and Mitsubishi thinks the Australian dollar will weaken by 5% over the next year. What is Mitsubishi UFJ's forecast of the future exchange rate?