

AcF305: International Financial and Risk Management

Week 2 tutorial questions

1. Complete the following transaction of the Canadian BOP:

A professor at UBC tenders 10m shares in an acquired Canadian firm, valued at CAD 77m, to a U.S. acquirer ... and receives 2m shares of the acquirer in return.

2. For the following three questions, assume that Antarctica is the home country, and its currency is the Antarctica dollar (AAD), and Greenland is the foreign country, and its currency is the Greenland crown (GRK). Choose the correct answer.

2.1. All else being equal, an increase in income in Greenland leads to:

- a. An increase in consumption in Antarctica, and therefore an increase in imports, resulting in an appreciation of the AAD.
- b. A decrease in consumption in Antarctica, and therefore an increase in exports, resulting in a depreciation of the AAD.
- c. An increase in consumption in Greenland, and therefore an increase in imports, resulting in an appreciation of the AAD.
- d. An increase in consumption in Greenland, and therefore an increase in imports, resulting in a depreciation of the AAD.

2.2. All else being equal, a decrease in prices in Greenland leads to:

- a. An increase in exports to Antarctica, and therefore an appreciation of the AAD.
- b. An increase in exports to Antarctica, and therefore a depreciation of the AAD.
- c. An increase in consumption in Greenland, and therefore an increase in imports, resulting in an appreciation of the AAD.
- d. A decrease in consumption in Greenland, and therefore a decrease in imports, resulting in a depreciation of the AAD.

3. The data below are taken from the BOP of Switzerland. Based on these data, decide whether the following statement is true or false and explain your answer.

“From 1979 to 1982, foreigners have been net issuers of SF-denominated bonds in the Swiss capital markets.”

Capital account	1979	1980	1981	1982
Portfolio investment	-11.8	-11.8	-11.9	-32.2 (in billions \$)

4. You have been hired by the IMF to design a program to improve the current account balance. How should your program influence the following variables (increase/decrease):
- a. Taxes
 - b. Government spending
 - c. Private savings