



Australian
National
University

Research School of Finance, Actuarial Studies & Statistics

EXAMINATION

Semester 2 – Final, 2022

FINM8007 TOPICS IN INTERNATIONAL FINANCE

Important: read the Final Exam Guidelines. Write your University ID on the first page of your answers. Type ALL your answers in ONE SINGLE document and submit it as an Adobe Acrobat PDF document via Turnitin. Email or fax submissions of your answers are NOT accepted. The deadline is November 4 2022 at 9:30 AM Canberra time. Late submission of your answers will not be permitted. Academic integrity is expected, so do NOT discuss your answers with other individuals. This exam is an individual assessment task based on your effort.

Start Date and Time: November 3 2022 (Thursday) at 9:30 AM Canberra time
End Date and Time: November 4 2022 (Friday) at 9:30 AM Canberra time
Time Allowed: 24 hours (1 day)

Exam Conditions:

This examination paper is not available to the ANU Library archives

Materials Permitted:

Calculator (non-programmable)

Unannotated paper-based dictionary (no approval required)

You may refer to any books or other materials, but you are NOT allowed to discuss your answers with other individuals.

Instructions to Students:

1. Attempt all the parts in the question. All the parts are independent of one another. You are required to answer all the parts.
2. The total mark for this exam is 150. This exam is worth 75% of your overall grade (or 100% if redeemed). You should apportion your time carefully so that you can finish all the parts within the time limit.
3. Start your solution to each part on a new page.
4. Do not round calculations until providing your final answer to each question. Final answers should be rounded to 2 decimal places, if necessary. The accuracy of your final answers is important. Inaccurate answers will lose marks.
5. Write all your answers in ONE SINGLE DOCUMENT. Show all workings (including formulas) for each question, as marks will not be awarded for answers that do not include workings.

Question 1 (150 marks)

All the parts are independent of one another. You are required to answer all the parts.

Part A

Consider the following bilateral exchange rates involving the Swiss Franc (CHF), Euro (EUR), British pound sterling (GBP), and United States dollar (USD):

GBP per USD (GBP/USD)	0.8654 – 0.8656
CHF per USD (CHF/USD)	0.9897 – 0.9899
EUR per USD (EUR/USD)	0.9975 – 0.9977
GBP per CHF (GBP/CHF)	0.7742 – 0.7745
GBP per EUR (GBP/EUR)	0.8674 – 0.8676
EUR per CHF (EUR/CHF)	0.9978 – 0.9980

Assume at the start that you have GBP 20,000. You can also assume that all interest rates are zero and there are no trading restrictions. Can you identify any positive arbitrage opportunities from this set of exchange rates? Consider all possible positive arbitrage opportunities. **Explain and show your working clearly and completely.** Give your final answers in GBP. If there are no positive arbitrage opportunities, explain and show clearly why.

[20 marks]

Assignment Project Exam Help

Part B

Singatale Telecom (a multinational corporation based in the United States) has an Australian subsidiary (Octopus Telecom Australia), which either pays a dividend to the parent company or receives cash payments from the parent company each year.

The currently available data about the spot, forward, and money markets involving the United States (US) dollar (USD) and Australian dollar (AUD) are given below:

Spot rates (USD per AUD)	USD/AUD 0.6452 – 0.6570
90-day forward points	20 – 23
90-day USD interest rates	3.5% - 4.0% per annum (p.a.)
90-day AUD interest rates	2.5% - 3.0% p.a.

Based on the data, answer both parts [i] and [ii] below. Parts [i] and [ii] are independent of each other.

[i] Suppose Octopus Telecom Australia declares a dividend of AUD 500,000, which will be paid to Singatale Telecom ninety (90) days later. Singatale Telecom (based in the US) is trying to decide how to manage the foreign exchange exposure associated with the dividend. Explain and compute the various strategies to manage the foreign exchange exposure associated with the dividend. **Explain your answers clearly and completely.** Give your final answers in USD.

[ii] Suppose the parent company Singatale Telecom needs to pay Octopus Telecom Australia AUD 250,000 ninety (90) days later. Discuss the various strategies to lock in the USD cost of this payment. Which strategy do you think would be better for Singatale Telecom? **Explain your answers clearly and completely.** Give your final answers in USD.

[20 marks]

Part C

Consider the following spot and cross exchange rates quoted by Commonwealth Bank (CommBank) and Australia and New Zealand Banking Group (ANZ) involving the Australian dollar (AUD), British pound sterling (GBP), and United States dollar (USD):

Exchange Rate	CommBank	ANZ
USD per AUD (USD/AUD)	0.6248 – 0.6766	0.6184 – 0.6294
GBP per AUD (GBP/AUD)	0.4369 – 0.5228	0.5392 – 0.5769

Assume at the start that you have AUD 10,000, GBP 10,000, and USD 10,000, respectively. You can also assume that all interest rates are zero and there are no trading restrictions. Can you identify any positive arbitrage opportunities from this set of quotes? Consider all possible positive arbitrage opportunities. **Explain and show your working clearly and completely.** If there are no positive arbitrage opportunities, explain and show clearly why.

[30 marks]

Part D

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With reference to the journal articles in Special Topic 3, explain and discuss **in your own words** how various asset pricing anomalies in the Chinese and United States financial markets are related to the volatility and information in these markets. The word limit for your answer is 1,500 words. This word limit does NOT include the list of references. Do NOT include graphs and tables in your answer. Formulas are not necessary in your answer.

Note: your answer must contain in-text citations and references. 10 marks from your final exam marks will be deducted for not including in-text citations and a SINGLE list of references. Use the Harvard-style of referencing. Any sentences and paragraphs that exceed the word limit will NOT be marked. For instance, if you have submitted an answer containing 1,530 words, then only the first 1,500 words will be marked and the last 30 words will not be marked.

References

An, J., Ho, K., and Zhang, Z. 2020. What drives the liquidity premium in the Chinese stock market? North American Journal of Economics and Finance 54, 101088.

Ho, K., and An, J. 2020. Decomposing the value premium: the role of intangible information in the Chinese stock market. Emerging Markets Review 44, 100700.

Hou, K., and Loh, R. 2016. Have we solved the idiosyncratic volatility puzzle? Journal of Financial Economics 121, 167-194.

Shi, Y., Liu, W., and Ho, K. 2016. Public news arrival and the idiosyncratic volatility puzzle. Journal of Empirical Finance 37, 159-172.

[80 marks]

[END OF EXAMINATION]