1. According to the Anglo-American model, what is the proper objective of a firm’s management?

2. The non-Anglo American model (also known as the “Continental European and Japanese” model) is often said to short-term profitability rather than long-term growth
   a. True  b. False

3. The first stage along the path from domestic company to multinational firm is usually a)an
   a. Greenfield investment.
   b. Cross-border investment.
   c. Joint-Venture Investment.
   d. Multinational firm.
   e. International trade.

4. In finance, an efficient market is one in which
   a. prices are assumed to be correct.
   b. prices adjust quickly and accurately to new information.
   c. prices are the best allocators of capital in the macro economy.
   d. all of the above.

5. ___________ are domestic currencies of one country on deposit in a second country.
   a. LIBORs
   b. Eurocurrencies
   c. Global Federal Funds
   d. FOREX Funds

6. In January 2002, the Argentine Peso changed in value from Pes1.00/$ to Pes1.40/$, thus, the Argentine Peso ___________ against the U. S. dollar.
   a. strengthened
   b. weakened
   c. remained neutral
   d. all of the above

7. The United States currently uses a _______________ exchange rate regime.
   a. crawling peg
   b. fixed
   c. floating

8. List the three attributes of the “ideal” currency.
9. Under a fixed exchange rate regime, the government of the country is officially responsible for:
   a. Intervention in the foreign exchange markets using gold and reserves.
   b. Setting the fixed/parity exchange rate.
   c. Maintaining the fixed/parity exchange rate.
   d. All of the above.

10. The balance of payments as applied to a course in international finance may be defined as:
   e. The amount still owed by an exporting firm after making an initial down payment.
   f. The amount still owed by governments to the International Monetary Fund.
   g. The measurement of all international economic transactions between the residents of a country and foreign residents.
   h. The amount of a country’s merchandise trade deficit or surplus.

11. If according to the law of one price (also known as Purchasing Power Parity) the current exchange rate of dollars per British pound is $1.75/£, then at an exchange rate of $1.85/£, the dollar is __________.
   a. overvalued
   b. undervalued
   c. correctly valued
   d. unknown relative valuation

12. The current U.S. dollar-yen spot rate is 125¥/$. If the 90-day forward exchange rate is 127 ¥/$ then the yen is at a forward premium.
   a. True
   b. False

13. The United States, since the 1970’s, generally runs a surplus in the Capital Account and has a balanced Balance of Payments.
   a. True
   b. False

14. The __________ approach to the determination of spot exchange rates hypothesizes that the most important factors are the relative real interest rate and a country’s outlook for economic growth and profitability.
   (a) balance of payments  (b) parity conditions  (c) managed float  (d) asset market

17. (2 points each) How would the following transactions affect (increase, decrease, no effect) the following U.S. Balance of Payment accounts?
   a. Walmart’s located in Germany import peaches from Georgia (U.S.A.).
      Current Account ________ or Capital Account ________ or Reserve Account ________

   b. An American buys a New Zealand Sheep farm for 1,000,000 New Zealand Dollars.
      Current Account ________ or Capital Account ________ or Reserve Account ________

   c. American parents pay for their daughter to go to France to study art at the Sorbonne.
      Current Account ________ or Capital Account ________ or Reserve Account ________

19. A currency board is
   a. a structure, rather than a mere commitment, to limiting the growth of the money supply in the economy.
   b. a recipe for conservative and prudent financial management.
   c. designed to eliminate the power of politicians to exercise judgment by relying on an automatic and unbendable rule.
   d. all of the above.
1. (3 points) In London an investor can buy a U.S. dollar for £0.5356. In New York the £/$ exchange rate is the same as found in London. Given this information, what is the $/£ exchange rate in New York?
   a. $1.8671/£
   b. £0.5356/$
   c. £1.8671/$
   d. $0.5356/£

2. (3 points) The UAE Dirham has appreciated by 200% against the Poland Zloty over the past year. By how much has the Zloty depreciated against the Dirham?

3. (3 points) The Economist publishes annually the “hamburger standard” by which they compare the prices of the McDonalds Corporation Big Mac hamburger around the world. The index estimates the exchange rates for currencies based on the assumption that the burgers in question are the same across the world and therefore, the price should be the same. If a Big Mac costs $2.54 in the United States and 294 yen in Japan, what is the estimated exchange rate of yen per dollar as hypothesized by the Hamburger index?
   a. $0.0086/¥
   b. 124¥/$
   c. $0.0081/¥
   d. 115.75¥/$

4. (3 points) The current U.S. dollar-yen spot rate is 125¥/$. If the 90-day forward exchange rate is 127 ¥/$ then the yen is selling at a per annum __________ of __________.
   (a) premium; 1.57%  (b) premium; 6.30%
   (c) discount; 1.57%  (d) discount; 6.30%

5. (6 points) Assuming no transaction costs, suppose 1 Swiss Franc = 1.3 U.S. Dollars in Zurich, 1 U.S. Dollar =1.18 Euros in New York, and 1 Swiss Franc = .87 Euros in Paris. Explain in detail how you take profitable advantage of these rates. If you started with $100,000 Euros, how much profit (in U.S. Dollars) would you have after one round trip through the currencies?
6. Using the Currency Trading Table, answer the following (2 points each).

a. (2 points) How many Japanese Yen would be needed to buy $115,000 U.S. Dollars in 6 months?

b. (3 points) What is the cross rate between New Zealand Dollar and Peru new Sol?

c. (3 points) How many New Zealand Dollar could your buy with 2,000,000 Peru new Sol?

d. (3 points) Based on the spot and 1-month forward rates in the currency table, the following currencies are appreciating versus the dollar.

Spot rate is $1=.55 British pounds.
The one-year futures price is $1= .57 British pounds

The 1-year British Treasury rate is 5.9%
Inflation in the United States is expected to be 1.8%.

Answer the following questions? (2 points for each blank)

7. A British person investing 10,000 pounds in the United States expects to invest __________ Dollars today in United States Treasury Bonds. They would earn ________% on their United States Treasury Bonds. At the end of one year, they would redeem their bond for __________ dollars and convert their $ back into __________ pounds. During this period, the pound appreciated/depreciated ______________ % against the $.

8. A U.S. person investing $10,000 in Britain expects to invest __________ pounds today in British Treasury Bonds. They would earn ________% on their British Treasury Bonds. At the end of one year, they would redeem their bond for __________ pounds and convert their pounds back into $ __________. During this period, the $ appreciated/depreciated ______________ % against the pound.

9. The spot rate for $1 is __________ pounds.

10. The inflation rate in Britain is __________%