

# SAMPLE QUESTIONS

**TYBAF**

**INTERNATIONAL FINANCE**

**SEM V**

**1. The payoffs for financial derivatives are linked to**

- a) securities that will be issued in the future.
- b) the volatility of interest rates
- c) previously issued securities.**
- d) government regulations specifying allowable rates of return.

**2. Which of the following is not a financial derivative?**

- a) Stock**
- b) Futures
- c) Options
- d) Forward contracts

**3. By hedging a portfolio, a bank manager**

- a) reduces interest rate risk.**
- b) increases reinvestment risk.
- c) increases exchange rate risk.
- d) increases the probability of gains.

**4. Which of the following is a reason to hedge a portfolio?**

- a) To increase the probability of gains.
- b) To limit exposure to risk.**
- c) To profit from capital gains when interest rates fall.
- d) To earn revenue profit

**5. Hedging risk for a long position is accomplished by**

- a) taking another long position.
- b) taking a short position.**

- c) taking additional long and short positions in equal amounts.
- d) taking a neutral position.

**6. Hedging risk for a short position is accomplished by**

**a) taking a long position.**

b) taking another short position.

c) taking additional long and short positions in equal amounts.

d) taking a neutral position.

**7. A contract that requires the investor to buy securities on a future date is called as**

a) short contract.

**b) long contract.**

c) hedge.

d) cross.

**8. A long contract requires that the investor**

a) sell securities in the future.

**b) buy securities in the future.**

c) hedge in the future.

d) close out his position in the future.

**9. A person who agrees to buy an asset at a future date has gone**

**a) long**

b) short

c) back.

d) ahead.

**10. A short contract requires that the investor**

**a) sell securities in the future.**

b) buy securities in the future.

c) hedge in the future.

d) close out his position in the future.

**11. A contract that requires the investor to sell securities on a future date is called as**

a) short contract

b) long contract

c) hedge

d) micro hedge

**12. If a bank manager choose to hedge his portfolio of treasury securities by selling futures contracts, he**

a) gives up the opportunity for gains

b) removes the chance of loss

c) increases the probability of gain

**d) gives up the opportunity for gains and removes the chance of loss**

**13. Using futures contracts to transfer price risk is called as**

a) Arbitrating

b) Speculating

c) Diversifying

**d) Hedging**

**14. Consider a European call option for 100 shares of IBM Corporation, whose strike price is \$170 per share and which matures 18 months from now.**

**What does this option entitle you to do?**

a) Between now and 18 months from now, you are entitled to make a phone call to the European headquarters of IBM Corporation to inquire about the value of 100 shares of IBM.

b) Between now and 18 months from now, you have the right, but not the obligation to purchase 100 shares of IBM Corporation for \$170 per share.

c) At the maturity date, that is 18 months from now, you have the right, but not the obligation to sell 100 shares of IBM Corporation for \$170 per share.

**d) At the maturity date, that is 18 months from now, you have the right, but not the obligation to purchase 100 shares of IBM Corporation for \$170 per share.**

**15. The stock price of a company today is \$30. Suppose that, a year from now, the stock is worth either \$45 or \$15. Assume that the risk-free rate between today and a year from now is 10% annually. Consider a European call option written on one share of this company, which has a \$34 strike price and which matures a year from now. What is the value of this call option?**

- a) \$11
- b) \$6
- c) \$5
- d) \$10

**16. If portable disk players made in China are imported into the United States, the Chinese manufacturer is paid with**

- a) international monetary credits
- b) dollars.
- a) yuan, the Chinese currency.**
- d) euros, or any other third currency

**17. Interest Rate Parity (IRP) implies that:**

- a) Interest rates should change by an equal amount but in the opposite direction to the difference in inflation rates between two countries
- b) The difference in interest rates in different currencies for securities of similar risk and maturity should be consistent with the forward rate discount or premium for the foreign currency**
- c) The interest rates between two countries start in equilibrium, any change in the differential rate of inflation between the two countries tends to be offset over the long term by an equal but opposite change in the spot exchange rate
- d) In the long run real interest rate between two countries will be equal

**18. A forward currency transaction :**

- a) Is always at a premium over the spot rate
- b) Means that delivery and payment must be made within one business day (USA/Canada) or two business days after the transaction date
- c) Calls for exchange in the future of currencies at an agreed rate of exchange**
- d) Sets the future date when delivery of a currency must be made at an unknown spot exchange rate

**19. The exchange rate is the**

- a) total yearly amount of money changed from one country's currency to another country's currency
- b) total monetary value of exports minus imports
- c) amount of country's currency which can be exchanged for one ounce of gold
- d) price of one country's currency in terms of another country's currency**

**20. Exchange rates**

- a) are always fixed
- b) fluctuate to equate the quantity of foreign exchange demanded with the quantity supplied**
- c) fluctuate to equate imports and exports
- d) fluctuate to equate rates of interest in various countries in different geographic markets

**21. The Purchasing Power Parity (PPP) theory is a good predictor**

- a) Prices of goods
- b) the long-run tendencies between changes in the price level and the exchange rate of two countries**
- c) interest rate differentials between two countries when there are strong barriers preventing trade between the two countries
- d) Inflation rate

**22. According to the Purchasing Power Parity (PPP) theory,**

- a) Exchange rates between two national currencies will adjust daily to reflect price level differences in the two countries
- b) In the long run, inflation rates in different countries will equalize around the world
- c) In the long run, the exchange rates between two national currencies will reflect price level differences in the two countries**
- d) Ratio of interest rate between two countries determines exchange rate

**23. The current system of international finance is a**

- a) gold standard
- b) fixed exchange rate system
- c) floating exchange rate system
- d) managed float exchange rate system**

**24. Ask quote is for**

- a) Seller
- b) Buyer
- c) Hedger
- d) Speculator

**25. A simultaneous purchase and sale of foreign exchange for two different dates is called**

- a) currency devalue
- b) currency swap**
- c) currency valuation
- d) currency exchange

**26. The Purchasing Power Parity should hold**

- a) Under a fixed exchange rate regime
- b) Under a flexible exchange rate regime**
- c) Under a dirty exchange rate regime
- d) Always

**27. It is very difficult to interpret news in foreign exchange markets because**

- a) very little information is publicly available
- b) most of the news is foreign
- c) it is difficult to know which news is relevant to future exchange rate**
- d) it is difficult to know whether the news has been obtained legally

**28. A/An \_\_\_\_\_ is an agreement between a buyer and seller that a fixed amount of one currency will be delivered at a specified rate for some other currency**

- a) Eurodollar transaction
- b) import/export exchange
- c) foreign exchange transaction**
- d) interbank market transaction

**29. Which of the following is not a participant in the foreign exchange markets?**

- a) bank and nonbank foreign exchange dealers
- b) central banks and treasuries
- c) speculators and arbitragers

**d) Domestic Business organization**

**30. A forward contract to deliver British pounds for US dollars could be described as \_\_\_\_\_ or \_\_\_\_\_**

- a) buying dollars forward; buying pounds forward
- b) selling pounds forward; selling dollars forward
- c) selling pounds forward; buying dollars forward**
- d) selling dollars forward; buying pounds

**31. You can exchange USD 1 for either 0.7707 euros or 0.5331 British pounds. What is the cross rate between the pound and the euro?**

- a) £.5331/1USD
- b) £.5431/1USD**
- c) £.6809/1USD
- d) £.6917/1USD

**32. Currently, you can exchange USD 1 for 105 yen or 74 GBP in New York. In Tokyo, the exchange rate is ¥1 = 0.0075GBP. If you have USD 1,000, how much profit can you earn using triangle arbitrage?**

- a) USD 64.19**
- b) USD 76.12
- c) USD 38.21.
- d) USD 74.09

**33. Which of the following statements is correct?**

a) The higher the exchange rate, the larger is the expected profit from demanding dollars in the foreign exchange market.

**b) The higher the exchange rate, the larger is the expected profit from selling dollars in the foreign exchange market.**

c) The lower the exchange rate, the larger is the expected profit from selling dollars in the foreign exchange market

d) the exchange rate has nothing to do with the expected profit from buying or selling dollars in the foreign exchange market

**34. Suppose that a dollar buys 120 JPY. If a VCR sells for 18,600 JPY in Japan, the price of the VCR in dollars is**

a) \$120.00

b) \$186.00

c) \$223.20

**d) \$155.00**

**35. Participants who take advantage of price difference in two or more markets in order to make profits are**

a) Hedgers

**b) Arbitrageurs**

c) Speculators

d) Brokers

**36. A process of valuing underlying assets in a futures contract at the end of each trading day is**

**a) Mark to market**

b) OTC trading

c) Intra-day trading

d) Hedging

**37. Using futures contracts to transfer price risk is called**

a) Arbitraging

b) Speculating

c) Diversifying

**d) Hedging**



**38. Purchase of a share in one market and simultaneous sale in different market to benefit from price differentials is known as**

- a) Mortgage
- b) Arbitrage
- c) Hedging
- d) Speculation

**39. One who takes the long position is called as:**

- a) Buyer
- b) Seller
- c) Writer
- d) Reader

**40. The risk of an exchange rate changing between the transaction date and subsequent settlement date is called \_\_\_\_\_**

- a) Economic
- b) Transaction**
- c) translation
- d) Financial