MCQ on International Finance

1. 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.
   c) yuan, the Chinese currency.
   d) euros, or any other third currency.

2. In the foreign exchange market, the _______ of one country is traded for the _______ of another country.
   a) currency; currency
   b) currency; financial instruments
   c) currency; goods
   d) goods; goods

3. Which of the following examples definitely illustrates a depreciation of the U.S. dollar?
   a) The dollar exchanges for 1 pound and then exchanges for 1.2 pounds.
   b) The dollar exchanges for 250 yen and then exchanges for 275 francs.
   c) The dollar exchanges for 100 francs and then exchanges for 120 yen.
   d) The dollar exchanges for 120 francs and then exchanges for 100 francs

4. By definition, currency appreciation occurs when
   a) the value of all currencies fall relative to gold.
   b) the value of all currencies rise relative to gold.
   c) the value of one currency rises relative to another currency.
   d) the value of one currency falls relative to another currency.
5. Given a home country and a foreign country, purchasing power parity suggests that:

a) the home currency will appreciate if the current home inflation rate exceeds the current foreign inflation rate;
b) the home currency will depreciate if the current home interest rate exceeds the current foreign interest rate;
c) the home currency will depreciate if the current home inflation rate exceeds the current foreign inflation rate.
d) the home currency will depreciate if the current home inflation rate exceeds the current foreign interest rate;

6. If purchasing power parity were to hold even in the short run, then:

a) real exchange rates should tend to decrease over time;
b) quoted nominal exchange rates should be stable over time.
c) real exchange rates should tend to increase over time;
d) real exchange rates should be stable over time;

7. 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
e) Nominal interest rates in each country are equal to the required real rate plus compensation for expected inflation
8. A forward currency transaction:

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<td><strong>a)</strong></td>
<td>Is always at a premium over the spot rate</td>
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<td><strong>b)</strong></td>
<td>Means that delivery and payment must be made within one business day (USA/Canada) or two business days after the transaction date</td>
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<td><strong>c)</strong></td>
<td>Calls for exchange in the future of currencies at an agreed rate of exchange</td>
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<td><strong>d)</strong></td>
<td>Sets the future date when delivery of a currency must be made at an unknown spot exchange rate</td>
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<td><strong>e)</strong></td>
<td>None of the above is correct</td>
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9. If inflation is expected to be 5 per cent higher in the United Kingdom than in Switzerland:

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<td><strong>a)</strong></td>
<td>purchasing power parity would predict that the UK spot rate should decline by about 5 per cent;</td>
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<td><strong>b)</strong></td>
<td>the theory of purchasing power parity would predict a drop in nominal interest rates in the United Kingdom of approximately 5 per cent;</td>
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<td><strong>c)</strong></td>
<td>expectations theory would suggest that the spot exchange rates between the two countries should remain unchanged over the long run;</td>
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<td><strong>d)</strong></td>
<td>the efficient market hypothesis suggests that no predictions can be made under a system of freely floating rates.</td>
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10. The date of settlement for a foreign exchange transaction is referred to as:

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<td><strong>a)</strong></td>
<td>Clearing date</td>
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<td><strong>b)</strong></td>
<td>Swap date</td>
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<td><strong>c)</strong></td>
<td>Maturity date</td>
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<td><strong>d)</strong></td>
<td>Value date</td>
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<td><strong>e)</strong></td>
<td>Transaction date</td>
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11. Hedging is used by companies to:

a) Decrease the variability of tax paid
b) Decrease the spread between spot and forward market quotes
c) Increase the variability of expected cash flows
d) **Decrease the variability of expected cash flows**
e) Increase the variability of tax paid

12. Which of the following is not a type of foreign exchange exposure?

a) **Tax exposure**
b) Translation exposure
c) Transaction exposure
d) Balance sheet exposure
e) Economic exposure

13. Which of the methods below may be viewed as most effective in protecting against economic exposure?

a) Futures market hedging
b) Forward contract hedges
c) **Geographical diversification**
d) Money market hedges
e) None of the above

14. When an enterprise has an unhedged receivable or payable denominated in a foreign currency and settlement of the obligation has not yet taken place, that firm is said to have:

a) Tax exposure
b) Operating exposure
c) Infinite exposure
d) Accounting exposure
e) **Transaction exposure**
15. The potential for an increase or decrease in the parent's net worth and reported net income caused by a change in exchange rates since the last consolidation of international operations is a reflection of:

a) Translation exposure  
b) Exchange rate exposure  
c) Strategic exposure  
d) Economic exposure  
e) Operating exposure

16. If one anticipates that the pound sterling is going to appreciate against the US dollar, one might speculate by _______ pound call options or _______ pound put options.

a) buying; buying  
b) selling; buying  
c) selling; selling  
d) buying; selling

17. Which of the following is true of foreign exchange markets?

a) The futures market is mainly used by hedgers while the forward market is mainly used for speculating.  
b) The futures market and the forward market are mainly used for hedging.  
c) The futures market is mainly used by speculators while the forward market is mainly used for hedging.  
d) The futures market and the forward market are mainly used for speculating.

18. The difference between the value of a call option and a put option with the same exercise price is due primarily to:

a) The greater liquidity of call options  
b) The use of continuous as opposed to discrete discounting  
c) The differential between the current stock price and the exercise price in present value terms  
d) The effect of dividends on the two securities  
e) The volatility of the price of the underlying stock
19. Which of the following is not an interest rate derivative used for interest rate management?

a) Swap  
b) Cap  
c) Floor  
d) Interest rate guarantee  
e) All of the above are interest rate derivatives

20. Counterparty risk is:

a) The risk of loss when exchange rates change during the period of a financial contract  
b) Based on the notional amount of the contract  
c) The risk of loss if the other party to a financial contract fails to honour its obligation  
d) Present only with exchange-traded options  
e) Eliminated by the use of compulsory insurance

21. The impact of Foreign exchange rate on firm is called as

a) Operating Exposure  
b) Transaction exposure  
c) Translation exposure  
d) Business risk

22. Foreign currency forward market is

a) An over the counter unorganized market  
b) Organized market without trading  
c) Organized listed market  
d) Unorganized listed market

23. Forward premium / differential depends upon

a) Currencies fluctuation  
b) Interest rate differential between two countries  
c) Demand & supply of two currencies  
d) Stock market returns
24. If transaction exposure are in same dates, then it can be hedged

a) **By purchasing single forward contract**

b) By purchasing multiple forward contract

c) Cannot be hedged by forward contracts

d) None of the above

25. Interest rate swaps are usually possible because international financial markets in different countries are

a) Efficient

b) Perfect

c) **Imperfect**

d) Both a & b

26. 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 exchanged for one ounce of gold

d) **price of one country’s currency in terms of another country’s currency**

27. 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
28. If the U.S. dollar appreciates relative to the British pound,
   a) it will take fewer dollars to purchase a pound
   b) it will take more dollars to purchase a pound
   c) it is called a weakening of the dollar
   d) both a & c

29. An arbitrageur in foreign exchange is a person who
   a) earns illegal profit by manipulating foreign exchange
   b) causes differences in exchange rates in different geographic markets
   c) simultaneously buys large amounts of a currency in one market and sell it in another market
   d) None of the above

30. A speculator in foreign exchange is a person who
   a) buys foreign currency, hoping to profit by selling it a a higher exchange rate at some later date
   b) earns illegal profit by manipulation foreign exchange
   c) causes differences in exchange rates in different geographic markets
   d) None of the above

31. The Purchasing Power Parity (PPP) theory is a good predictor of
   a) all of the following:
   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) either b or c
32) 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) None of the above

33) A floating exchange rate
a) is determined by the national governments involved
b) remains extremely stable over long periods of time
c) is determined by the actions of central banks
d) is allowed to vary according to market forces)

34) Under a gold standard,
a) a nation’s currency can be traded for gold at a fixed rate
b) a nation’s central bank or monetary authority has absolute control over its money supply
c) new discoveries of gold have no effect on money supply or prices
d) a & b

35) The Bretton Woods accord
a) of 1879 created the gold standard as the basis of international finance
b) of 1914 formulated a new international monetary system after the collapse of the gold standard
c) of 1944 formulated a new international monetary system after the collapse of the gold standard
d) None of the above
36) 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

37) Ask quote is for
   a) Seller
   b) Buyer
   c) Hedger
   d) Speculator

38) 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

39) If your local currency is in variable form and foreign currency is in fixed form the quotation will be:
   a) Indirect
   b) Direct
   c) Local form
   d) Foreign form

40) In 1944 international accord is recognized as
   a) Breton Wood Agreement
   b) Exchange Agreement
   c) International Trade
   d) Fisher Effect
41) In a quote exchange rate, the currency that is to be purchase with another currency is called the

   a) liquid currency  
b) foreign currency  
c) local currency  
d) base currency

42) An economist will define the exchange rate between two currencies as the:

   a) **Amount of one currency that must be paid in order to obtain one unit of another currency**
   b) Difference between total exports and total imports within a country  
c) Price at which the sales and purchases of foreign goods takes place  
d) Ratio of import prices to export prices for a particular country

43) 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

44) Which of the following is NOT a criticism of a flexible exchange rate system?

   a) Flexible exchange rates tend to be variable and therefore cause more uncertainty  
b) Flexible exchange rate systems require discipline on the part of central banks that may not be forthcoming  
c) **Under flexible exchange rates, trading countries tend to rely more heavily upon tariffs and other restrictions**  
d) The flexible exchange rate system reduces the power of fiscal policy

45) **Arbitrageurs in foreign exchange markets:**

   a) attempt to make profits by outguessing the market)  
b) make their profits through the spread between bid and offer rates of exchange)  
c) **take advantage of the small inconsistencies that develop between markets)**  
d) need foreign exchange in order to buy foreign goods)
46) 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 rates
- d) it is difficult to know whether the news has been obtained legally

47) **Covered interest rate parity occurs as the result of:**

- a) the actions of market-makers
- b) interest rate arbitrage
- c) purchasing power parity
- d) stabilising speculation

48) 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

49) Which of the following may be participants in the foreign exchange markets?

- a) bank and nonbank foreign exchange dealers
- b) central banks and treasuries
- c) speculators and arbitragers
- d) **All of the above**

50) A forward contract to deliver British pounds for U$S) dollars could be described either 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 forward

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