OULUN YLIOPISTON
KAUPPAKORKEAKOULU

Tentin päivämäärä / Date of exam: 16/12/2014
Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam: **721962S: International Finance (2)**
Tentaattori(t)/ Examiner(s): Hannu Kahra
Sallitut apuvälineet / The devices allowed in the exam: X☐ Laskin (ei graafinen/ohjelmoitava)/Calculator (not graphic, programmable) ☐ Sanakirja/Dictionary   X☐ Muu materiaali, tarkennettu alla/Other material, specified below   Yksi kaksipuolinen itse kirjoitettu kaavakokoelma ilman tekstiä.
Tenttiin vastaaminen / Please answer the questions X☐ suomeksi/ in Finnish X ☐ englanniksi/ in English
Kysymyspaperi on palautettava / Paper with exam questions must be returned: ☐ Kyllä/Yes X ☐ Ei/No

1. PPP and the law of one price
2. Assume that \$1 = £0.60 is the 12-month forward rate prevailing at the start of the year, when at the same time the spot rate is \$1 = £0.50. Compute the premium. Is there a premium or discount on dollars, is there a premium or discount on sterling?
3. Explain the concept of efficient markets. What might keep international markets from being efficient?
4. A Belgian company importing motorcycles from Japan is billed in yen. What should it do to hedge its foreign exchange risk?
   a. Buy US dollars forward with euros.
   b. Sell yen forward for euros.
   c. Buy yen forward with euros.
5. The one-year interest rate is 8% in Germany and 5% in the United States. Is the one-year forward dollar selling at discount or a premium against the euro? By how many percent?
6. What are fixed rate currency swaps and how can they be used?
7. True or false:
   a. Futures contracts are forward purchases or sales of several currencies by a central bank?
   b. Purchases and sales of futures contracts do not use bid-ask prices?
   c. Deposits are required when selling or purchasing a futures contract?
8. Choose the correct response. An increase in the expected volatility will cause
   a. A rise in the call premium and a fall in the put premium.
   b. A fall in the call premium and a rise in the put premium.
   c. A rise in both the call and the put premiums.

9. Choose the correct response(s). Implicit volatility is
    a. Equal to the standard deviation of the spot rate measured over the last 90 days.
    b. Equal to the moving average of the difference between the spot rate and the forward rate over the last 15 days.
    c. Equal to the standard deviation expected by the market for the market forecasts of future spot rates.
10. What is the relationship between the current account balance and a country's savings and investment?