OULUN YLIOPISTO
UNIVERSITY of OULU

YLIOPISTOTENTTILOMAKEPOHJA / UNIVERSITY EXAM TEMPLATE
Koskee tiedekuntia LuTK, OyKKK, KaTK, TTK, TST ja BMTK (Linnanmaan tentit) /
Concerns Faculties SCI, OBS, OMS, TECH, ITEE and BMM (Linnanmaa campus)

Tentin päivämäärä / Date of exam:	Tentin kesto tunteina / Exam in hours:
29.10.2015	4 hrs

Tiedekunta / Faculty:	Oulu Business School

Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam: 721962S International Finance 1/3

Tentaattori(t) / Examiner(s):	Sisäinen postios. / Internal address
Hannu Kahra	OBS

Sallitut apuvälineet / The devices allowed in the exam:

☒ Nelilaskin / Standard calculator ☒ Funktiolaskin / Scientific calculator ☒ Ohjelmoitava laskin / Programmable calculator

☐ Muu materiaali, tarkennettu alla / Other material, specified below:

Tenttiin vastaaminen / Please answer the questions:
☒ Suomeksi / in Finnish   ☒ Englanniksi / in English

Kysymyspaperi on palautettava / Paper with exam questions must be returned:
☒ Kyllä / Yes   ☐ Ei / No

1. PPP (10 points)
2. Choose the correct answer(s): Absolute Purchasing Power Parity may not hold when (5 points):
   a. the prices of individual goods in the consumption bundle consistently deviate from CPP across two countries
   b. it can be computed even if the consumption bundles of different countries are not the same (i.e. if the APPP rate cannot even be defined, theoretically)
   c. the prices for individual goods are sticky
   d. there are tariffs, quotas, and voluntary export constraints
   e. competition is perfect
3. Choose the correct answer(s): Relative Purchasing Power Parity is relevant because (5 points):
   a. empirical tests have shown that Absolute PPP is always violated, while Relative PPP is a good predictor of short-term exchange rate exposure
   b. consumption bundles are not always comparable across countries
   c. price levels are not stationary over time
   d. investors care about the real return on their international portfolio investments
   e. investors care about the nominal return on their portfolio investments

4. What is wrong with the following statements? (8 points)
   a. The forward in the expected future spot rate.
   b. The sign of the forward premium tells you nothing about the strength of a currency; it just reflects the difference of the interest rates.
   c. The difference of the interest rates tells you nothing about the strength of a currency; it just reflects the forward premium or discount.
   d. The forward rate is a risk-adjusted expectation but the spot rate is independent of expectations.
   e. A certainty equivalent tends to be above the risk-adjusted expectation because of the risk correction.
   f. A risk-adjusted expectation is always below the true expectation because we don't like risk.
   g. A risk-adjusted expectation can be close to, or above the true expectation. In that case the whole world would hold very little of that currency, or would even short it.
   h. Adding a zero-value contract cannot change the value of the firm; therefore a forward hedge cannot make the shareholders better off.
5. Which of the following statements are correct (4 points)?
   a. A forward purchase contract can be replicated by: borrowing foreign currency, converting it to domestic currency, and investing the domestic currency.
   b. A forward purchase contract can be replicated by: borrowing domestic currency, converting it to foreign currency, and investing the foreign currency.
   c. A forward sale contract can be replicated by: borrowing foreign currency, converting it to domestic currency, and investing the domestic currency.
   d. A forward sale contract can be replicated by: borrowing domestic currency, converting it to foreign currency, and investing the foreign currency.
6. Carry trade. What is the empirical evidence of carry trade? (10 points)