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: 30.11.2015	**Tentin kesto tunteina / Exam in hours:** 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 2/3	
Tentaattori(t) / Examiner(s): Hannu Kahra	**Sisäinen postios. / Internal address** 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. Futures vs. forwards. (10 points)
2. Which of the following are risks that arise when you hedge by buying a forward contract in imperfect financial markets? (4 points)
    a. Credit risk: the risk that the counterpart to a forward contract defaults.
    b. Hedging risk: the risk that you are not able to find a counterpart for your forward contract if you want to close out early.
    c. Reverse risk: the risk that results from a sudden unhedged position because the counterpart to your forward contract defaults.
    d. Spot rate risk: the risk that the spot rate has changed once you have signed a forward rate.
3. How does a fixed-for-fixed currency swap differ from a spot contract combined with a forward contract in the opposite direction? (6 points)
4. True or false (9 points)
    a. Technical forecasting models analyze macroeconomic variables in an attempt to forecast future changes in the exchange rate.

b. Fundamental analysis models analyze macroeconomic variables in an attempt to forecast future changes in the exchange rate.

c. By a "technical correction," one means that investors underreact to bad news so that the exchange rate does not drop as low as it should. This means that demand must fall further, in order to correctly value a foreign currency in terms of the home currency.

d. If the exchange rate bottoms out (that is, it hits a low point but begins to rise again), and then increase again by x%, we can make substantial (and low-risk) profit by buying foreign currency – even when paying "retail" bid-ask spreads.

e. Because we cannot make significant profits from predicting the exchange rate based on past information, the exchange markets are weak-form efficient.

f. Runs tests have confirmed that positive changes in the exchange rate tend to be followed by positive changes, and negative changes by negative changes. This is consistent with the conclusion from autocorrelation tests.

g. The results from runs tests and autocorrelation tests provide unambiguous evidence that the foreign exchange market is inefficient.

h. Central bankers are able to forecast the future spot rates because they have inside information.

i. Central bankers are manifestly able to forecast the future spot rate because they have inside information, but they cannot forecast the current forward rate because they cannot know the future risk-free rates of return.