

## YLIOPISTOTENTTI - UNIVERSITY EXAM

<b>Opiskelijan nimi / Student name:</b>	<b>Opiskelijanumero / Student number:</b>
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Opettaja täyttää / Lecturer fills in:

<b>Opintojakson koodi and nimi / The code and the name of the course:</b> <b>Koodi / Code: 721962S</b> <b>Tentin nimi / Exam name: International Finance</b>	
<b>Tiedekunta / Faculty: OyKKK/OBS</b>	
<b>Tentin pvm / Date of exam: 20.10.</b>	<b>Tentin kesto tunteina / Exam in hours: 3</b>
<b>Tentin nro / No. of the exam: Exam 1</b>	<b>Opintopistemäärä / Credit units: 6</b>
<b>Tentaattori(t) / Examiner(s): Hannu Kahra</b>	<b>Sisäinen postios. / Internal address: OyKKK/OBS</b>
<b>Sallitut apuvälineet / The devices allowed in the exam:</b> <input checked="" type="checkbox"/> Nelilaskin / Standard calculator <input checked="" type="checkbox"/> Funktiolaskin / Scientific calculator <input checked="" type="checkbox"/> Ohjelmoitava laskin / Programmable calculator <input type="checkbox"/> Muu materiaali, tarkennettu alla / Other material, specified below:	
<b>Tenttiin vastaaminen / Please answer the questions:</b> <input checked="" type="checkbox"/> Suomeksi / in Finnish <input checked="" type="checkbox"/> Englanniksi / in English Suomenkielisessä tutkinto-ohjelmassa olevalla opiskelijalla on oikeus käyttää arvioitavassa opintosuorituksessa suomen kieltä, vaikka opintojakson opetuskieli olisi englanti. Tämä ei koske vieraan kielen opintoja. (Kts. <u>Koulutuksen johtosääntö</u> 18 §) In a Finnish degree programme a student has a right to use Finnish language for their study attainment, even though the language of instruction is English, (excluding language studies) even when the language of instruction is other than Finnish. (See <u>the Education Regulations</u> 18 §)	
<b>Kysymyspaperi on palautettava / Paper with exam questions must be returned:</b> <input checked="" type="checkbox"/> Kyllä / Yes <input type="checkbox"/> Ei / No	

1. A bank quotes the following rates. Compute the EUR/JPY bid cross-rate (that is, the bank's rate for buying JPY). (2 points)

	Bid	Ask
EUR/CAD	0.64	0.645
CAD/JPY	0.01	0.012

2. Relative Purchasing Power Parity is irrelevant because of the following (choose 2). (2 points)
- Empirical tests have shown that Absolute PPP is always violated, while Relative PPP is a good predictor of short-term exchange rate exposure.
  - Consumption bundles are not always comparable across countries.
  - Price levels are not stationary over time.
  - Investors care about the real return on their international portfolio investments.
  - Investors care about the nominal return on their international portfolio investments.
3. Abitibi Bank quotes JPY/EUR 155-165, and Bathurst Bank quotes EUR/JPY 0.0059-0.0063. (3 points)
- Are these quotes identical?
  - If not, is there a possibility for shopping around or arbitrage?
  - If there is an arbitrage opportunity, how would you profit from it?
4. Which of the following statements are correct (choose 4)? (4 points)
- A forward purchase contract can be replicated by: borrowing foreign currency, converting it to domestic currency, and investing the domestic currency.
  - A forward purchase contract can be replicated by: borrowing domestic currency, converting it to foreign currency, and investing the foreign currency.
  - A forward sale contract can be replicated by: borrowing foreign currency, converting it to domestic currency, and investing the domestic currency.
  - A forward sale contract can be replicated by: borrowing domestic currency, converting it to foreign currency, and investing the foreign currency.
  - In a perfect market you could forbid forward markets (on the basis of anti-gambling laws, for instance), and nobody would give a fig.

- f. The spot rate and the interest rate determine the forward rate,
  - g. No, the forward rate determines the spot.
  - h. No, the forward and the spot and the foreign interest rate determine the domestic interest rate.
  - i. No, there are just four products that are so closely related that their prices cannot be set independently.
5. A forward sale can be replicated by (select 1): (2 points)
- a. Selling a put and buying a call.
  - b. Selling a foreign T-bill and buying a domestic T-bill.
  - c. Buying a put and selling a call.
  - d. Both b and c.
  - e. All of the above.
6. PPP (6 points).
- a. Definition.
  - b. What is the empirical evidence?
7. Explain, why  $F_t \neq E_t(S_T)$  (6 points)

