

YLIOPISTOTENTTI - UNIVERSITY EXAM

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

Opintojakson koodi and nimi / The code and the name of the course: Koodi / Code: 721962S Tentin nimi / Exam name: International Finance	
Tiedekunta / Faculty: OYKKK / OBS	
Tentin pvm / Date of exam: 08.12.2016	Tentin kesto tunteina / Exam in hours: 3
Tentin nro / No. of the exam: 2nd retake	Opintopistemäärä / Credit units: 6
Tentaattori(t) / Examiner(s): Hannu Kahra	Sisäinen postios. / Internal address: OYKKK/OBS
Sallitut apuvälineet / The devices allowed in the exam: <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:	
Tenttiin vastaaminen / Please answer the questions: <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 18 §</u>) 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 18 §</u>)	
Kysymyspaperi on palautettava / Paper with exam questions must be returned: <input type="checkbox"/> Kyllä / Yes <input checked="" type="checkbox"/> Ei / No	

Problems

December 1, 2016

1. On May 2 2016 the price of 1 USD in EUR was 0.86836. On December 1 the exchange rate was 0.94085. (6 points)
 - (a) Has the dollar appreciated/depreciated? By how much?
 - (b) Has the euro appreciated/depreciated? By how much?
 - (c) Explain.
2. What's wrong with the following statements? (8 points)
 - (a) The forward is the expected future 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.
3. On November 23rd the spot exchange rate for the USD in euros was 0.95. The 3-month interest rate in the US was 0.92 and in the Euro area -0.31. The rates are per annum. What is the 3-month forward rate for the USD? Is the exchange rate at discount or premium? (6 points)
4. Carry Trade. (6 points)