Chapter 1 Introduction

- 1. Which of the following is the primary objective of a firm?
 - employees' benefits A.
 - B. satisfaction of customers
 - C. satisfaction of suppliers
 - prompt payment to creditors D.
- * E. maximize stockholder wealth
- 2. Financial risk involves ____.
 - fluctuation in exchange rates A.
 - B. different interest and inflation rates
 - C. balance of payments position
 - D. A and B
- * E. A, B, and C
- 3. Three sweeping changes include ____.
 - A.
 - B.
- industrialization and growth of the developing war to the creation of the North American Trail Cognement increased globalization A, B, and D C.
 - D.
- * E. A, B, and D
- 2 of 118 4. Manager, up yonerally define
 - stockholders
 - В. agents

*

- C. creditors
- D. suppliers
- E. customers
- 5. Which of the following is not one of seven principles of global finance?
 - market imperfection A.
 - B. risk-return tradeoff
 - C. portfolio effect
 - D. comparative advantage
- * E. company advantage
- 6. Incentives for multinational company managers include the following except .
 - A. stock options
 - bonuses B.
 - C. perquisites
 - D. salary increases
 - E. vacation

- 13. Corporate governance is often narrowly defined as the prudent exercise of ownership rights toward the goal of increased ____.
 - shareholder value A.
 - B. profit

- C. profit margin on sales
- D. asset turnover
- E. sales volume
- 14. The most common form of shareholder activism includes _____.
 - a shareholder proposal for proxy fight A.
 - direct negotiation with management Β.
 - C. public targeting of a corporation
- * D A, B, and C
 - E. A and C only
- Notesale.co.uk 15. The OECD Principles of Corporate Governance covers
 - the rights of shareholders A.
 - B. the equitable treatment of shareholders
 - C. the responsibilities of the board
 - disclosure and transparency D.
- * E. all of the above
- The political, reenatory, technological, and conomic forces radically changing the 16. global competitive environmental Cude

A. the collapse of the mathies m

- В. the privatization of state-owned enterprises around the world
- С. the revolution in information technologies
- a wave of mergers, leveraged buyouts, and takeovers D.
- * E. all of the above
- 17. All of the following have played an important role in the globalization process of the world economy except ____.
 - advances in information technologies A.
 - B. increased tariffs

- C. reductions in trade barriers
- D. reduced transportation and communication costs
- reductions in technological barriers E.

- 18. Reductions in transportation and communication costs have ____.
 - facilitated international production activities A.
 - Β. enlarged trading areas
 - C. enabled companies to exploit international cost differentials
 - D. reduced technological barriers
- * E. all of the above
- 19. Reasons for management to focus on stockholder wealth maximization include _____.
 - stockholders are the owners of the company A.
 - stockholders provide the risk capital that protects the welfare of other constituents Β.
 - C. a high stock price provides the best defense against a hostile takeover
 - enhanced shareholder value makes it easier for the company to attract additional D. equity capital
- * all of the above E.
- 20. Which of the following statements about financial planning and control is not true?
 - financial planning and control must be considered simultaneously A.
 - Β. ration is a the preparation of budgets is a planning function, but their admit controlling function
 - C.
 - budgets are used to compare actual performance with planned performance the foreign exchange market plays ark are in MNC financial planning and D. control
- * E. all of the above statements are true
- C financial r eget as expanded in recent years to include ____. 21. The role of
- corporate strate
 - financial planning and control В.
 - C. subsidiary performance
 - D. multiple environments
 - regulatory risks E.

- 6. The major forms of economic cooperation among countries do not include____.
 - a free trade area A.
 - Β. a consortium bank

*

*

*

- C. customs union
- D. economic union
- E. political union
- 7. Which of the following is a valid argument for protectionism?
 - national security A.
 - unfair competition Β.
 - C. domestic employment
 - D. A and B
 - E. A, B, and C
- 8. Which of the following is not a main objective of the free trade agreement between the United States and Canada?
 - establish common external tariffs A.
 - B.
 - C.
 - D.
 - liberalize investment laws between the two countries grant "national treatment" with each other liberalize the trading relationships between the two her entro two countries E.
- Two loose trading blocs in a late 9.
 - ASEAN and NAF A.
 - SEAV and EU
 - 0 SEAN and
 - NAFTA and EU D.
 - E. APEC and NAFTA
- 10. The Eclectic Theory, designed to explain a logical link between trade and investment theories, was developed by ____.
 - A. Levy
 - B. Snart
 - C. Lessard
 - D. Nehrt
 - E. Dunning
- 11. Which of the following theories best describes a major motive for international trade?
 - the theory of comparative advantage A.
 - portfolio theory Β.
 - eclectic theory C.
 - oligopoly model D.
 - E. none of the above

- 12. Nehrt and Hogue suggested that companies invest abroad because of _____.
 - new markets A.
 - Β. raw materials
 - C. product efficiency
 - new knowledge D.
- * E. all of the above

*

*

- Which of the following is not one of benefits of open trade? 13.
 - A. increased government spending
 - comparative advantage B.
 - C. increased competition
 - D. increased productivity
 - expanded menu of goods E.
- 14. Which of the following is not an example of trading bloc?
 - A. African Union
 - North American Free Trade Agreement B.
 - C. Mercosur
 - D. the Central American Common Market
 - the Asian Pacific Economic Cooperation E.
- tesale.co.uk Or the following reason(s) ____. Tariffs on imported goods can be imported 15.
 - revenue A.
 - B. national pr
 - r Panio protection of domestic
 - retaliation
- * A, C, and D E.
- Import quotas specify the _____ amounts of certain products to be imported during a given 16. period of time.
 - A. minimum
 - B. maximum
 - C. unlimited
 - D. small
 - E. given
- 17. The portfolio theory of foreign investment relies on the following variable(s) .
 - A. risk
 - B. technology
 - C. return
 - market share D.
 - E. both A and C

Use the following information to answer the next two questions:

Assume that the spot rate changed from \$0.64 per Swiss franc on January 1 in one recent year to \$0.68 per Swiss franc on December 31 of that year.

27. What is the percentage change in the franc spot rate using direct quotes for a US company?

A. 5.55%

Β. 6.25%

*

*

- C. 7.55%
- D. 8.00%
- 9.99% E.

Solution: Use Equation (5-1). % Change = (0.68 - 0.64)/0.64 = 0.0625 or 6.25%

- 28. What is the percentage change in the franc spot rate using indirect quotes for a US company?
 - A. 6.25%
 - 7.77% B.
 - C. 8.88%
 - D. 9.45%
 - E. 5.55%

. quotes 1 . quot Converting a Qove example into indirect quotations, the Swiss franc Solution: changes from 1.5625 francs to 1.4706 francs. Use Equation (5-2) to solve this problem.

% Change = (1.5625 - 1.4706)/1.4706 = 6.25%

- 29. The bid price is \$0.64 for the Canadian dollar and the ask price is \$0.68 for the Canadian dollar. What is the bid-ask spread for the Canadian dollar?
 - A. 6.77%
 - B. 7.77%
 - C. 8.75%
- *
- D. 6.25% E. 5.25%

Solution: Use Equation (5-3). Spread = (0.68 - 0.64)/0.64 = 0.0625 or 6.25%

- 19. Option premiums consist of ____.
 - intrinsic value, time value, and current value A.
 - Β. intrinsic value, time value, and volatility
 - C. current value, time value, and volatility
 - D. time value, intrinsic value, and historical value
 - E. all of the above
- 20. Futures contracts of the following currencies are traded on the Chicago Mercantile Exchange except _
 - British pound A.
 - B. euro

*

*

- C. Japanese yen
- D. Swiss franc
- * E. New Zealand dollar
- 21. A long currency futures position means that an investor has the following situation _____.
 - a put option A.
- Which of the following instruments is a financial derivative? A. currency futures B. currency forward C. interest swap D. currency swap 3. all of the interest swap 22.
- *
- 23. Organized exchanges trade the following futures instruments:
 - A. currency futures of any maturity
 - B. standardized currency futures
 - C. currency futures of any size
 - currency futures sold in any currency D.
 - none of the above E.
- 24. Currency futures contracts are acquired for the following purposes _____.
 - A. hedging
 - B. speculation
 - arbitrage C.
 - hedging and speculation D.
 - all of the above E.

- 6. The shortcomings of parallel and back-to-back loans include ____.
 - difficulty of finding counterparties A.
 - Β. a non-compliance by one of the parties
 - C. difficulty of finding exact matching needs
 - D. A and B
- * E. A, B, and C

- 7. Currency swaps overcome the shortcomings of parallel and back-to-back loans because of .
 - specialized swap dealers and brokers A.
 - B. their simplicity
 - C. their cost effectiveness
 - D. A and B
 - E. A, B, and C
- The first currency swap between the World Bank and IBM was arranged in 1981 by _____. 8.
 - Citicorp A.
- *
- 9.
- *
- A currency swap bank is us ral <u>1</u>. A. an end user B. arithmicial intermediary C. a currency spice lagar D. A and B E. all of the above

 - E. all of the above
- 10. A currency swap broker is a swap bank who
 - uses his or her own account in completing transactions A.
 - is strictly an agent to take orders from her client B.
 - C. a currency speculator
 - D. A and B
 - E. all of the above
- Interest rate swaps involve counterparties who want to 11.
 - exchange a floating rate commitment for a fixed rate loan A.
 - B. exchange debt for stock
 - C. exchange a short-term loan for a long-term loan
 - D. A and B
 - none of the above E.

Solution: \$15,000 x the annuity discount factor of \$1 for 5 years at 8 percent = \$15,000 x 3.993 = \$59,895.

- 23. If the floating rate stays the same for the first two years and then falls by 1.5 percent, what will be your net payments for the five years?
 - A. \$75,000
 - B. \$90,000
 - C. \$100,000
 - D. -\$150,900
 - E. -\$262,500

*

Solution: You will receive a total of \$30,000 for the first two years [\$7,500,000 x $(0.082 - 0.080) \ge 2$]. The new floating rate that you will receive: 8.2% - 1.5% = 6.7%. You will pay a total of \$292,500 for the last three years [\$7,500,000 x $(0.067 - 0.08) \ge 3$ years]. Thus, your net payment over the five years will be -\$262,500 (\$30,000 - \$292,500).

Use the following information to answer the next five constructs: Two counterparties agree to enter a foreign current wap between American dollars and Swigg formers One della

Swiss francs. One dollar is currently with 1.4 francs, The American dollar payor will provide \$500,000. The interest at e on the dollar is 9 percent, and the Swiss franc rate is 8 percent. The swaper lls for a life of three Deals with annual payments.

- 24. Poy much will the pro iter of the dollar pay at the outset?
 - A. SFr700,000
 - B. SFr500,000
 - C. SFr357,143
 - D. SFr200,000
 - E. SFr125,000

Solution: \$500,000 x SFr1.4 = SFr700,000.

- 25. If the interest rates do not change, what is the annual dollar interest payment for the foreign borrower of dollars?
 - A. \$34,000
 - B. \$40,000

*

- C. \$45,000
- D. \$50,000
- E. \$55,000

Solution: \$500,000 x 0.09 = \$45,000.

- 11. Two major qualities of mechanical rules as compared with chartists are ____.
 - subjective judgement and objective skill A.
 - Β. consistency and superior judgement
 - C. superior accuracy and subjective judgement
 - D. consistency and discipline
 - E. objective judgement and error-free results
- 12. Filter rule is a rule that belongs to the following forecasting method.
 - fundamental analysis A.
 - market-based forecast B.
 - C. econometrics model
 - forward-rate forecasting model D.
- * E. technical analysis

*

- 13. Market-based forecasts consist of
 - spot rate, forward rate, and inflation rate A.
 - spot rate, forward rate, and exchange rate Β.
 - С.
 - D.
 - E.
- ur-step sequence as a general **NOTES A GENERAL CONTRACT** asting procedure under a fixed rate system The four-step sequence as a general 14. consists of
 - A. assessing the balance of payments out
 - measuring the magnitud of required adjustment
 - aming of adit 👽 ne.
 - nature of adjustment D.
- * E. all of the above
- 15. There are at least three ways to determine the size of the change in the exchange rate required to bring the balance of payments back into equilibrium. Which of the following is one of the three ways to restore the balance-of-payments equilibrium?
 - the theory of purchasing power parity A.
 - B. forward exchange rate
 - free market or black market rate C.
 - D. all of the above
 - E. none of the above

- 21. What is the percentage appreciation of the Canadian dollar?
 - A. 4.69%
 - Β. 5.69%
 - C. 6.69%
 - D. 7.69%

*

E. 8.69%

Solution: Use Equation (8-1): Percentage Change = (0.70 - 0.65)/0.65 = 7.69%

- 22. What is the percentage depreciation of the US dollar?
 - -7.14% A.
 - B. -6.00%
 - C. -5.14%
 - D. -8.88%
 - E. -9.19*

Use the following information to answer the proceed questions. Suppose that the Swiss franc appreciate from US\$0.44 at the end of the year that the transmuster of Suppose that the Swiss franc appreciated from US\$0.40 apphe beginning of the year to US\$0.44 at the end of the year The US inflation rate is a percent and the Swiss inflation rate is 3 percent during he vear.

- P 23. the percenta tion of the Swiss franc?
 - 11.12% Α.
 - B. 11.00%
 - C. 10.00%
 - D. 10.59%
 - E. 12.00%

Solution: Use Equation (8-1): Percentage Change = (0.44 - 0.40)/0.40 = 10%

- An option-market hedge in foreign exchange risk management is a form of a(n) _____. 6.
 - covered hedge A.
 - Β. open position
 - C. balance sheet hedge
 - D. swap

*

- E. speculation
- 7. A currency swap involves the following _____.
 - spot market only A.
 - Β. forward market only
 - C. spot and forward markets
 - options and futures markets D.
 - E. the New York Stock Exchange
- 8. In the case of a credit swap, a parent company .
 - A. buys a foreign currency in the spot market and sells it in the forward market
 - buys a foreign currency in a home market and sells it in a foreign market Β.
 - C. deposits a home currency at a home bank on behalf of a foreign back and the foreign bank lends money in a foreign currency to moonpany's foreign n Notesale subsidiary
 - D. all of the above
 - E. none of the above
- 9. ve the following tran a Interest rate swaps i vo
 - pfixe merest rate for cash flows of a floating interest h nge cash flows ate
 - exchange cash flows of long-term debt with cash flows of short-term debt
 - C. exchange cash flows of foreign currency debt with cash flows of home currency debt
 - D. all of the above
 - E. none of the above
- 10. Back-to-back loans involve the following transaction
 - equal loans are arranged by two multinational parent companies in two different A. countries
 - Β. equal loans are arranged by one bank in two different time periods
 - C. equal loans are arranged by one multinational corporation in two different rates
 - D. all of the above
 - E. none of the above

- 12. Eurobonds are long-term obligations denominated in _____ outside the country of issue.
 - Swiss franc A.
 - Β. US dollars
 - C. Japanese yen
 - British pounds D.
- * E. all of the above
- 13. The main characteristics of straight bonds do not include _____.
 - a fixed interest rate A.
 - a fixed maturity Β.
 - C. unsecured debentures
 - no interest payment until maturity D.
 - E. none of the above
- 14. The interest rate on floating rate bonds is usually adjusted every _____.
 - A. three months
 - B. six months

*

- The main characteristics of zero-coupen longs do not includ A. interest payment made at insturity B. principal payment made of C. solution 15.

 - sales a cr deep discount
- discounted in ers P
 - E. no periodic interest to pay.
- 16. The has the largest market share of the international bond market.
 - US dollar A.
 - B. Japanese yen
 - German mark C.
 - D. British pound
 - E. French franc
- 17. Which of the following does <u>not</u> contribute to the efficiency of the Eurodollar market?
 - the US government imposes no restrictions on non-resident transactions A.
 - Β. foreign entities are free to transact with US banks
 - C. European banks offer competitive rates for Eurodollar deposits and loans
 - D. no reserve requirements for Eurodollar time deposits
 - E. none of the above

- 33. A firm borrows \$20,000 at 10 percent. What is the effective rate of interest if the principal and its interest are paid at maturity?
 - A. 11.11%
 - B. 11.00%
 - C. 10.50%
 - D. 10.00%

*

*

E. 9.45%

Solution: Dollar interest $cost = $20,000 \times 0.10 = $2,000$. Effective rate of interest = 2,000/20,000 = 10%.

- What is the effective interest rate on a \$10,000 loan at 12 percent interest rate if the bank 34. requires a 20-percent compensating balance and a payment of the interest at maturity?
 - A. 15%
 - B. 14%
 - C. 13%

- What is the effective interest rate on a 940,000 loan at 12 percent interest rate if the bank requires a 20-percent compensating balance and in advance payment of the interest? A. 12.55% B. 1851 B. 1851 B. 1851 B. 1855 B. 1955 B. 35.
- * E. 17.65%

Solution: 12/(100 - 20 - 12) = 17.65%.

- 36. A US company borrows Swiss francs for one year at 8 percent. The Swiss franc is expected to depreciate by 6 percent against the dollar for one year. What is the effective interest rate of the loan in US dollar terms?
 - 1.00% A.
 - B. 1.52%
 - C. 2.00%
 - D. 2.50%
 - E. 3.11%

Solution: Use Equation (14-1). r = [(1 + 0.08)(1 + (-0.06) - 1] = 1.52%.

- 6. According to the transfer pricing regulations, multinational firms are supposed to charge prices to its foreign affiliates based on the following:
 - total cost A.

*

- B. arm's-length prices
 - C. average cost
- D. internal prices
- none of the above E.
- 7. Some multinational companies set up a re-invoicing center which normally _____.
 - invoices in the same currency for the buyer and seller of goods and services A.
 - B. buys in one currency and pays in another currency
 - C. buys in the parent currency and pays in the parent currency
 - D. buys in gold and pays in the US dollar
 - E. all of the above

8. Intracompany loans do not include the following transaction(s)

- *
- A. the priorit company H. the foreign company C. a bank D. a form 9.

- * a foreign government
 - E. both A and B
- 10. Multinational firms may be able to repatriate funds from foreign affiliates through the following method(s) .
 - royalty payments A.
 - B. management fees
 - dividend payments C.
 - adjustment of transfer prices D.
- * E. all of the above

- A 1996 study by Ricci and Morrison found that 80 percent of Fortune 200 companies 16. use wire transfers , 50 percent pool their cash , and almost half net payments and transfer funds electronically .
 - sometimes: sometimes: sometimes A.
 - В. often; often; often.

*

*

- C. often; sometimes; rarely.
- D. rarely; rarely; rarely.
- E. often; often; rarely.
- 17. Transfer pricing has been used by multinational firms to achieve the following objectives:
 - minimize income taxes A.
 - В. minimize tariff payments
 - minimize foreign exchange controls C.
 - operate working capital effectively D.
- * E. all of the above
- Re-invoicing centers are set up in tax haven countries to do the following 18.
 - A.
 - B.
 - C.
 - D.
 - E.
- A and B A, B, and C Multinational companies requently polyndle remittances into separate flow categories in 19. order to

avoid taxes

- В. minimize the size of profit repatriation
- C. meet the accounting standards
- D. A and B
- E. A, B, and C
- 20. Which of the following is not a popular cash center location.
 - Luxembourg A.
 - Β. The Netherlands
 - C. Bermuda
 - D. Chile
 - E. the Bahamas
- 21. Intracompany loans do not include .
 - direct loans A.
 - Β. credit swaps
 - back to back loans C.
 - loans under parent guarantees D.
- * E. loans from the World Bank

- 25. The number of expropriations undertaken by foreign governments has _____ since 1979.
 - increased slightly A.
 - Β. increased substantially
 - C. decreased slightly
 - D. decreased substantially
 - E. stayed the same

- The grand tour relies on the visiting the countries where investment is considered. 26.
 - opinions of company executives A.
 - gut feeling of independent advisors Β.
 - C. opinions of bankers
 - D. opinions of government officials
 - E. none of the above
- 27. A foreign investment decision differs from a domestic decision in the following ways:
 - A. net cash flows are subject to exchange-rate changes
 - foreign investment projects are subject to political risk Β.
- *
- 28.
- *
- 29. Which of the following statements concerning cash flow analysis of foreign projects is not true?
 - A. the cash outflows and inflows should be analyzed on an after-tax basis
 - Β. the forecasts ordinarily come from data of similar ventures
 - C. foreign exchange rates need not be considered
 - D. the forecasts may be made by such techniques as the percent-of-sales method
 - E. two sets of cash flows must be made, one for the project itself and one for the parent company
- 30. When the host country has a stable exchange rate _____.
 - no cash flow problems are presented A.
 - cash flow analysis becomes more complicated B.
 - C. permission is required to buy foreign exchange
 - the remittance of funds to the parent company is blocked D.
 - E. none of the above

- 6. The weighted average cost of capital usually goes down up to a certain point if we add
 - more equity A.
- * Β. more debt

*

*

- C. more preferred stock
- D. none of the above
- E. all of the above
- 7. The company's optimum capital structure is compatible with _____.
 - minimizing the company's weighted average cost of capital A.
 - maximizing the value of the company Β.
 - C. maximizing the company's share price
 - D. all of the above
 - E. none of the above
- 8. Multinational companies may lower their cost of capital mainly because .
 - A. they are smart
 - B. they can obtain additional capital internationally
- 9.
- The marginal cost of capital means than oten and the same star of the superior of the color and the superior of the color and the superior of the superior of
 - none of the
- 10. In foreign investment analysis, the optimum capital budget is obtained at the point where
 - A. the net present value is maximized
 - the internal rate of return is maximized B.
 - C. the internal rate of return crosses the marginal cost of capital
 - D. all of the above
 - E. none of the above
- 11. The main reasons why the international cost of capital may be different from the purely domestic cost of capital are due to the following:
 - the company's accessibility to international capital markets A.
 - tax advantages in different countries Β.
 - C. exchange rate risk
 - A and B D.
- * E. A, B, and C

27. Tax morality ____.

*

- A. is a tax that would not affect the location of the investment or the nationality of the investor
- B. are those taxes assessed on imported goods
- C. are those taxes imposed by host governments on dividend and interest payments to foreign investors and debt holders
- D. is the conflict between profits and ethics
 - E. is the excess of deductible expenses over gross income

Preview from Notesale.co.uk Page 118 of 118