Multiple Choice Questions

Ch1

1. Three major reasons to study international finance include:
   A. to understand a global economy
   B. to understand the impact of global finance on businesses
   C. to understand the European Union
   D. to make intelligent personal decisions
   E. A, B, and D

2. Which of the following is the primary objective of a firm?
   A. employees' benefits
   B. satisfaction of customers
   C. satisfaction of suppliers
   D. prompt payment to creditors
   E. maximize stockholder wealth

3. Financial risk involves:
   A. fluctuation in exchange rates
   B. different interest and inflation rates
   C. balance of payments position
   D. A and B
   E. A, B, and C

4. Three sweeping changes include:
   A. the end of Cold War
   B. industrialization and growth of the developing world
   C. the creation of the North American Trade Agreement
   D. increased globalization
   E. A, B, and D

5. Those companies listed below do business in more than 100 countries around the world except the following company:
   A. IBM
   B. General Motors
   C. Sony
   D. Union Pacific Railroad
   E. BP Amoco

6. Managers are generally defined as:
   A. stockholders
   B. agents
   C. creditors
   D. suppliers
   E. customers

7. Which of the following is not one of seven principles of global finance?
   A. market imperfection
B. risk-return tradeoff
C. portfolio effect
D. comparative advantage
E. company advantage

8. Incentives for multinational company managers does not include the following:
   A. stock options
   B. bonuses
   C. perquisites
   D. salary increases
   E. vacation

9. Environmental factors affecting international operations are as follows except:
   A. foreign customs
   B. foreign economic factors
   C. foreign political situations
   D. foreign legal aspect
   E. international distance

10. Three major risks in international business are:
    A. political, financial and weather
    B. economic, political and people
    C. political, financial and regulatory
    D. accounting, management and information
    E. marketing, ethics and political

11. Conflicts of interest for multinational corporations do not include:
    A. the interests of sovereign governments may be different
    B. the goals of multinationals are divergent from host countries
    C. some conflicts may exist within multinational subsidiaries
    D. multinational companies may conflict with local laws
    E. multinational managers live in different time zones

12. To maximize shareholder value, US companies have increased:
    A. profit margin on sales and asset turnover
    B. Asset dispositions
    C. dividends and share purchases
    D. the utilization rate of assets
    E. mergers and acquisitions

13. The conflict between owners, employees, suppliers, and customers of a company
    is known as:
    A. regulatory risk
    B. problem of agency
    C. conflict of multiple environments
    D. conflict of interests
    E. none of the above

14. The main differences between domestic and international companies from a
    financial manager's point of view are largely due to differences in:
    A. risks
    B. national laws
    C. economic factors
    D. political factors
E. all of the above
15 A global company is an organization that attempt to:
   A. has a worldwide presence in its market
   B. Integrate its operations worldwide
   C. standardize operations in one or more of the company's functional areas.
   D. A and B
   E. A, B, and C
16. Corporate governance is often narrowly defined as the prudent exercise of ownership rights toward the goal of increased:
   A. shareholder value
   B. profit
   C. profit margin on sales
   D. asset turnover
   E. sales volume
17. The most common form of shareholder activism includes:
   A. a shareholder proposal for proxy fight
   B. direct negotiation with management
   C. public targeting of a corporation
   D. A, B, and C
   E. A and C only
18. The OECD Principles of Corporate Governance covers:
   A. the rights of shareholders
   B. the equitable treatment of shareholders
   C. the responsibilities of the board
   D. disclosure and transparency
   E. the rights of suppliers

CH 2

Multiple Choice Questions
1. Which of the following is not true about the theory of comparative advantage?
   A. some countries can produce some goods more efficiently than other countries.
   B. all countries are better off if each specializes in its area of strength.
   C. factors of production are equally distributed among nations.
   D. efficient production requires combinations of different resources and technologies.
   E. distribution of resources and technology can change over time.
2. Specialization and trade provide _____ benefits for a country that produces more in both products than another country with a given amount of investment.
   A. no
   B. negative
   C. positive
   D. none of the above
   E. all of the above
3. According to the _____ theory, a country must specialize in any good that uses its large amount of production factors.
   A. product life cycle
   B. factor endowment
4. The more abundant the supply of any factor, the lower will be the cost of the factor. This statement is the essence of the theory of _____.
   A. product life cycle
   B. factor endowment
   C. comparative advantage
   D. competitive advantage
   E. free trade

5. The concept that the whole is worth more than the mere sum of its parts is known as _____.
   A. comparative advantage
   B. competitive advantage
   C. economies of scope
   D. economies of scale
   E. factor endowment

6. Which of the following is a valid argument for protectionism?
   A. national security
   B. unfair competition
   C. domestic employment
   D. diversification
   E. all of the above

7. Which of the following is not true about protective tariffs?
   A. eliminate import of foreign products
   B. place foreign sellers at a comparative disadvantage
   C. consumers have to pay more for foreign goods
   D. reduce consumption of imported goods
   E. none of the above

8. In the maturity or saturation stage of a product life cycle, some companies shift their manufacturing methods to developing countries because _____.
   A. standard production methods require only unskilled workers
   B. developing countries have a lot of unskilled labor
   C. labor costs are low in developing countries
   D. all of the above
   E. none of the above

9. Benefits of open trade do not include _____.
   A. reduced foreign direct investment
   B. allocation efficiency
   C. increased competition
   D. increased productivity
   E. expanded menu of goods

10. Economic integration creates opportunities for economies of scale, which are usually known as _____.
    A. monopoly effects
    B. oligopoly effects
    C. ripple production
    D. synergistic effects
    E. A and B
11. The Levy-Sarnat model in portfolio theory assumes that domestic investment projects tend to be _____.
   A. less correlated with each other than foreign investment projects
   B. less correlated with foreign investment projects than other domestic projects.
   C. totally uncorrelated
   D. correlated with respect to domestic investment projects
   E. none of the above

12. The main functions of the World Trade Organization (WTO) do not include .
   A. administrating its trade agreements
   B. forum for trade negotiations
   C. technical assistance and training for developing countries
   D. monitoring national trade policies
   E. the establishment of trade centers around the world

13. In the oligopoly model, a horizontal investment may _____.
   A. reduce the number of competitors
   B. eliminate duplicate facilities
   C. expand a firm's operation in an existing product line
   D. B and C
   E. A, B and C

14. The following factors are essential to develop new products.
   A. highly advanced technologies
   B. highly educated labor resources
   C. abundant capital
   D. A and C
   E. A, B and C

15. The portfolio theory, as a rationale for foreign investment, rests on _____.
   A. labor costs
   B. risk and return
   C. standard production methods
   D. the supply of unskilled labor
   E. all of the above

16. The control of input sources in an oligopolistic industry may make it possible for companies to _____.
   A. raise barriers to the entry of new competitors
   B. protect their oligopolistic position
   C. impose quotas
   D. A and B
   E. A, B and C

17. Horizontal investments for foreign production of the same goods as made in a home market are made to produce _____.
   A. market integration
   B. changes in the location of production
   C. coordinated economic cycles
   D. operational economies of scale
   E. none of the above

19. Two loose trading blocs in Asia are:
   A. ASEAN and NAFTA
   B. ASEAN and EU
   C. ASEAN and APEC
20. Nehrt and Hogue suggested that companies invest abroad for _____.
   A. new markets  
   B. raw materials  
   C. production efficiency  
   D. new knowledge  
   E. all of the above  

21. Aharoni studied the process for foreign investment decisions and found that foreign investment takes place because of _____.
   A. outside proposals such as those from foreign governments  
   B. fear of losing a market  
   C. the bandwagon effect  
   D. strong competition from abroad in the home market  
   E. all of the above  

22. The bandwagon effect means that _____.
   A. successful foreign operations reported by a company induce competitors to go abroad  
   B. multinational companies tend to possess knowledge that is superior to local companies'  
   C. local companies tend to possess knowledge that is superior to multinational companies'  
   D. some companies prefer to obtain news of technical developments in foreign countries through foreign investment  
   E. companies that find it difficult or costly to obtain raw materials at home invest their money abroad to obtain them  

23. Nehrt and Hogue suggested that companies do not invest abroad for ____:
   A. new markets  
   B. raw materials  
   C. transportation system  
   D. product efficiency  
   E. new knowledge  

24. Corporate responses to trading blocs include _____.
   A. invest in various trading blocs  
   B. forge various strategic alliances across various trading blocs  
   C. forge various joint ventures across trading blocs  
   D. A, B, and C  
   E. none of the above  

25. The _____ theory makes it possible to synthesize foreign trade and investment theories into a single theory of international economic involvement.
   A. product life cycle  
   B. portfolio  
   C. eclectic  
   D. oligopoly  
   E. none of the above  

26. Which of the following is not an example of trading bloc?
   A. African Union  
   B. North American Free Trade Agreement  
   C. Mercosur  
   D. the Central American Common Market
E. the Asian Pacific Economic Cooperation

27. A large number of studies conclude that NAFTA will .
   A. decrease U.S. jobs
   B. decrease Mexican jobs
   C. decrease Canadian jobs
   D. increase U.S. jobs
   E. increase Japanese jobs

28. John Dunning argues that a company is willing to invest abroad when it has:
   A. ownership-specific advantages
   B. benefit-specific advantages
   C. internationalization advantages
   D. location-specific advantages
   E. A, C, and D

CH 3

1. Credit transactions in the balance of payments include ___.
   A. exports of goods and services
   B. investments and interest paid to foreign residents
   C. investment and interest earnings
   D. transfer receipts from foreign residents
   E. investments and loans from foreign residents

2. The financial account in the balance of payments does not include ____.
   A. foreign direct investments
   B. foreign portfolio investments
   C. exports of goods and services
   D. other investments
   E. A, B, and D

3. A country's balance of payments is commonly defined as the _____.
   A. yearly average of all transactions conducted between its residents and foreign residents
   B. record of transactions over a specified period of time between its residents and foreign residents
   C. sum of all transactions conducted by foreign nationals in the host country
   D. sum of all transactions conducted by its residents in foreign countries
   E. C and D

4. Surpluses and deficits in the balance of payments are not used to _____.
   A. predict pressures on foreign exchange rates
   B. anticipate government policy actions
   C. assess a country's credit and political risks
   D. predict a country's political stability
   E. evaluate a country's economic health

5. A country's balance of payments affects the _____.
   A. value of its currency
   B. ability to obtain currencies of other countries
   C. policy towards foreign investment
   D. A, and B
   E. A, B, and C

6. The balance of payments is _____.
   A. sources and uses of funds statement
   B. similar to an income statement
   C. the same as a balance sheet
D. both an income statement and a balance sheet
E. none of the above

7. Transactions that earn foreign exchange are often called _____ transactions.
   A. foreign
   B. debit
   C. credit
   D. international
   E. domestic

8. Which of the following transactions does not represent a credit transaction?
   A. exports of goods and services
   B. investment and interest earnings
   C. unilateral transfers received from foreign residents
   D. investments and loans from foreign residents
   E. none of the above

9. Transactions that expend foreign exchange are sometimes called _____ transactions.
   A. foreign
   B. debit
   C. credit
   D. international
   E. domestic

10. Which of the following transactions does not represent a debit transaction?
    A. exports of goods and services
    B. dividends and interest paid to foreign residents
    C. transfer payments abroad
    D. investments and loans to foreigners
    E. imports of goods and services

11. In a freely floating exchange rate system, a current account deficit should produce a financial account .
    A. surplus
    B. deficit
    C. balance
    D. both A and B
    E. all of the above

12. During the 1990s, the United States had a in its current account.
    A. surplus
    B. deficit
    C. reasonable balance
    D. both A and B
    E. none of the above

13. Interest and dividend incomes show up on the .
    A. merchandise account
    B. reserves and related items
    C. capital account
    D. current account
    E. financial account

14. In theory, the balance of payments ______.
    A. should always balance
    B. never balance
    C. must balance
    D. has nothing to do with debits and credits
    E. has nothing to do with debits
15. Official reserve assets are composed of _____.
   A. gold
   B. convertible foreign exchange
   C. special drawing rights
   D. all of the above
   E. A and B

16 World output has grown _____. than world trade during the 1990s.
   A. faster
   B. slower
   C. ten times faster
   D. all of the above
   E. none of the above

17. The J-curve effect holds that a country's currency depreciation causes its trade
    balance to _____.
   A. deteriorate for a short time
   B. flatten out after an initial deterioration
   C. a significant improvement in the long run
   D. A, B, and C
   E. A and B only

18. To reduce its trade deficit, a country should _____.
   A. deflate the economy
   B. devalue the currency
   C. adopt foreign exchange controls
   D. institute trade controls
   E. all of the above

19. As the real value of the yen rises, the balance on Japan's current account is likely to
    _____.
   A. stay the same
   B. improve
   C. deteriorate
   D. cannot tell
   E. none of the above

20. The growing economic interdependence of the United States and other countries is
    reflected in _____.
   A. expanding international trade
   B. expanding foreign direct investment
   C. expanding portfolio investment
   D. A, B, and C
   E. increasing isolationism

21. The phrase "adversarial trade is used to mean _____.
   A. preferential trading
   B. the best trading partner
   C. only selling but not buying
   D. only buying but not selling
   E. none of the above

CH 4

1. Which of the following is not one of advantages for a flexible exchange rate
   system?
   A. countries can maintain independent monetary policy
B. exchange rates under a flexible system are unstable
C. countries can maintain independent fiscal policy
D. flexible exchange rates permit a smooth adjustment
E. Central banks do not need to maintain large reserves

2. Under the purely fluctuating exchange rate system, the balance of payments imbalances are automatically corrected by the following mechanism.
   A. speculation
   B. government intervention
   C. interest rate changes
   D. supply and demand in exchange markets
   E. none of the above

3. Which of the following is not directly related to the Bretton Woods system?
   A. 1944
   B. the fixed exchange rate system
   C. the Bank of England
   D. the International Monetary Fund
   E. the World Bank

4. Which of the following is not directly attributable to the collapse of the fixed exchange rate system?
   A. U.S. balance of payments deficits
   B. the decrease in the U.S. dollar value
   C. the decline of international reserves
   D. Japan's trade surplus
   E. none of the above

5. The Group of Ten got together at the Smithsonian Institution to agree on a wider band system so that exchange rates can fluctuate.
   A. 5% above and below the central rate
   B. 2.25% above and below the central rate
   C. 2% above and below the central rate
   D. 4% above and below the central rate
   E. 10% above and below the central rate

6. The Jamaican Agreement was held to amend the Bretton Woods Agreement of the fixed exchange rate system in.
   A. 1973
   B. 1975
   C. 1976
   D. 1978
   E. 1979

7. Factors that cause demand and supply schedules for foreign exchange to shift include:
   A. relative inflation rates
   B. relative interest rates
   C. different welfare systems
   D. relative income levels
   E. government intervention

8. The July 1993 currency crisis in Europe caused the European Monetary System to widen the bands within which member currencies could fluctuate against other member currencies, to of a central value.
   A. 14%
   B. 15%
9. Which of the following countries is not a member of the G-7 Group?
   A. the United States
   B. Italy
   C. the United Kingdom
   D. Switzerland
   E. Japan

10. The objectives of the International Monetary Fund (IMF) are .
    A. to promote international monetary cooperation
    B. to promote exchange stability
    C. to create standby reserves
    D. all of the above
    E. none of the above

11. Since 1976, each member of the International Monetary Fund (IMF) has been required to contribute % of its quota in its own currency and % in Special Drawing Rights or convertible currencies.
    A. 25; 75
    B. 50; 50
    C. 75; 25
    D. 90; 10
    E. 95; 5

12. The reserve tranche of the International Monetary Fund (IMF) means that by exchanging their own currencies for convertible currencies, a member country may draw % of its quota.
    A. 25
    B. 50
    C. 75
    D. 80
    E. 100

13. Which of the following is not a SDR component currency?
    A. U.S. dollar
    B. euro
    C. Swiss franc
    D. Japanese yen
    E. British pound

14. Special drawing rights are used to settle payments by the following organizations except
    A. IMF member countries
    B. prescribed organizations
    C. central banks
    D. multinational corporations
    E. A, B, and C

15. SDR interest rates are the weighted average interest rate of .
    A. given short-term rates
    B. SDR countries
    C. Treasury Bill rates
    D. certificate of deposits (CD) rates
    E. IMF member countries
16. The euro began public circulation in ____.
   A. 1999
   B. 2000
   C. 2001
   D. 2003
   E. 2002

17. The managed floating exchange system was established in .
   A. 1969
   B. 1973
   C. 1976
   D. 1979
   E. 1980

18. The decline of the U.S. dollar value in the late 1980s was mainly attributable to the following agreement .
   A. Louvre Accord
   B. Plaza Accord
   C. Smithsonian Agreement
   D. Jamaica Agreement
   E. None of the above

   A. Korea
   B. Thailand
   C. Indonesia
   D. Hong Kong
   E. Philippines

20. The total Gross Domestic Products (GDP) of the United States is _____ than that of the 11-euro zone countries as of December 1998.
   A. larger
   B. neither larger nor smaller
   C. two times larger
   D. smaller
   E. two times smaller

21. The September 1992 currency crisis in Europe was mainly attributable to .
   A. the British currency action
   B. the increase in German interest rate
   C. the Danish election
   D. the French currency policy
   E. all of the above

22. The proposal under which a par value of a currency is adjusted intermittently is referred to as a .
   A. wide band
   B. narrow band
   C. crawling peg
   D. crawling band
   E. gliding band

23. The quota allotted to a member country of the IMF, which it can borrow at will, is known as tranche.
   A. gold
   B. basic
   C. member
D. credit
E. reserve

24. Economists regard the creation of the Euro as a new European currency in the international monetary system as the most important development since.
   A. 1953
   B. 1963
   C. 1973
   D. 1983
   E. 1993

25. A country may link its exchange rate to the value of a major currency, usually the U.S. dollar or the French franc. This is called.
   A. a currency par
   B. a currency peg
   C. a currency composite
   D. a currency basket
   E. none of the above

26. If and when the value of the Japanese yen against the U.S. dollar goes up 15%, it affects the following items.
   A. the price of imported Japanese cars
   B. the price of Japanese cameras
   C. the price of Japanese pearls sold in Troy, Ohio
   D. the price of a Sharp copier in Detroit
   E. all of the above

CH 5

1. The foreign exchange market is referred to as a market where one country’s currency is exchanged for another currency. The currency exchange is usually made through the following methods.
   A. buyers and sellers of foreign exchange meet at a physical location.
   B. buyers and sellers of foreign exchange meet through a telephone network
   C. buyers and sellers of foreign exchange meet through computer communications
   D. A and B
   E. B and C

2. Which of the following is not a function of a commercial bank in the foreign exchange market?
   A. they operate the payment mechanism
   B. they determine exchange rates
   C. they extend credit
   D. they help reduce foreign exchange risk
   E. they buy and sell foreign exchange

3. A black market for currencies exists in some countries where.
   A. there is a huge balance of payments surplus
   B. there is a huge trade surplus
   C. currencies are pegged and exchange controls exist
   D. all of the above
   E. none of the above

4. Which of the following is not a characteristic of speculation.
5. The International Monetary Market is part of the following exchange.
A. the New York Stock Exchange
B. the Chicago Mercantile Exchange
C. the Philadelphia Stock Exchange
D. the Singapore Stock Exchange
E. none of the above

6. A U.S. company is expected to receive £100,000 in 120 days. If the company wants to minimize the risk of foreign exchange, then it would.
A. buy British pounds forward
B. sell British pounds forward
C. buy British pounds 120 days from now
D. sell British pounds 120 days from now
E. sell British pounds in the current spot market

7. Speculation in foreign exchange markets entails.
A. covering in the forward market
B. covering in the money market
C. hedging in the option market
D. buying in the current spot market and selling in the future spot market
E. covering in the futures market

8. Foreign exchange markets are efficient if.
A. good information is available at no or little cost
B. you have inside information
C. markets are highly regulated
D. market information is secretive
E. most foreign exchange dealers are speculators

9. The theory of purchasing power parity says that.
A. the inflation rates in two countries are unrelated
B. the exchange rate reflects the inflation rate difference between two countries in the opposite direction
C. the inflation rate is greater than the interest rate
D. the interest rate is greater than the inflation rate
E. the interest rate and the inflation rate are identical

10. The Fisher Effect assumes that the.
A. real interest rate is equal to the nominal interest rate
B. nominal interest rate is equal to the real interest rate plus the inflation rate
C. inflation rate is equal to the real interest rate
D. nominal interest rate is equal to the inflation rate
E. nominal interest rate is lower than the inflation rate

11. The International Fisher Effect says that the.
A. exchange rate difference reflects the inflation rate difference between two countries
B. spot rate reflects the interest rate difference between two countries in the opposite direction
C. future spot rate reflects the forward rate
D. interest rate is greater than the inflation rate
12. The theory of interest rate parity means that the.
   A. interest rates are equal in two countries
   B. difference between the spot rate and the forward rate reflects the difference
      in interest rates between two countries in the opposite direction
   C. difference between the spot rate and the future spot rate reflects the interest
      rate difference between two countries in the opposite direction
   D. future spot rate reflects the inflation difference between two countries
   E. all of the above

13. A forward rate is equal to a future spot rate if foreign exchange markets are.
   A. controlled by the government
   B. efficient
   C. controlled by speculators
   D. are partially controlled by the International Monetary Fund
   E. none of the above

14. For a US resident, ___is a direct quote while ___ is an indirect quote.
   A. £0.66 per $ and $0.25 per Mexican peso
   B. $1.50 per pound and $0.25 per Mexican peso
   C. $0.75 per Canadian dollar and $1.50 per pound
   D. £0.66 per $ and $1.50 per pound
   E. $1.50 per pound and ¥120 per $

15. Which of the following currencies is directly linked to the value of gold?
   A. U.S. dollar
   B. Japanese yen
   C. Deutsche mark
   D. British pound
   E. none of the above

16. If the spot rate of the Deutsche mark is $.30 and the six month forward rate of the
    mark is $.32, what is the forward premium or discount on an annual basis?
   A. premium; about 14.5%
   B. discount; about 14.5%
   C. premium; about 13.3%.
   D. discount; about 13.3%.
   E. premium; about 16.7%.

17. If the spot rate of the Deutsche mark is $.32 and the six month forward rate is
    $.30, what is the forward premium or discount on an annual basis?
   A. discount; 11.5%.
   B. premium; 11.5%.
   C. premium; 12.5%.
   D. discount; 12.5%.
   E. premium; 22.5%.

18. If the Canadian dollar is equal to $.86 and the German mark is equal to $.28, what
    is the value of the German mark in terms of Canadian dollars?
   A. about .3256 marks.
   B. about .3568 marks.
   C. about 1.2 marks.
   D. about 1.5 marks.
   E. about .5600 marks.

19. If the German mark is equal to $.35 and the French franc is worth .31 German
    mark, what is the franc/dollar exchange rate?
20. If the Japanese yen was worth $.0035 six months ago and is now worth $.0045 today, how much has the yen appreciated or depreciated?
   A. appreciated; about 29%.
   B. appreciated; about 25%.
   C. depreciated; about 20%.
   D. depreciated; about 18%.
   E. appreciated; about 15%.

21. Assume: (1) the U.S. annual interest rate = 10%; (2) the Germany annual interest rate = 4%; and (3) the 90-day forward rate for the German mark = $.3864. At what current spot rate will interest rate parity hold?
   A. $.3922.
   B. $.3855.
   C. $.3807.
   D. $.3752.
   E. $.6000.

22. Suppose annual inflation rates in the U.S. and Brazil are expected to be 5% and 90%, respectively over the next year. If the current spot rate for the Brazilian cruzeiro is 3342.62 cruzeiros per dollar, then the best estimate of the cruzeiro's future spot rate one year from now is:
   A. Cr$6053.27.
   B. Cr$6350.99.
   C. Cr$3342.62.
   D. Cr$6685.24.
   E. Cr$7800.00.

23. If the expected inflation rate is 4% and the real required return is 5%, what is the nominal interest rate?
   A. 1%.
   B. 9%.
   C. 6%.
   D. 5%.
   E. 11%.

Use the following information to answer the next three questions:
Assume the following: you have $10,000 to invest; the current spot rate of British pounds is $1.800; the 90-day forward rate of the pound is $1.780; the annual interest rate in the U.S. is 4%; the annual interest rate in the U.K. is 6%.

24. Where would you invest your $10,000 to maximize your yield with no foreign exchange risk?
   A. in the United States.
   B. in the United Kingdom.
   C. cannot tell.
   D. does not make any difference.
   E. in Germany.

25. Given the U.S. interest rate, the U.K. interest rate, and the spot rate, what would be an equilibrium forward exchange quotation?
26. Given the spot rate, the forward rate, and the U.S. interest rate, what is the equilibrium U.K. interest rate?
   A. 6.0%
   B. 8.9%
   C. 4.0%
   D. 6.0%
   E. 8.4%

Use the following information to answer the following 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 U.S. company?
   A. 5.55%
   B. 6.25%
   C. 7.55%
   D. 8.00%
   E. 9.99%

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

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

CH 6

1. A currency futures contract differs from a commodity futures contract in the _____.
   A. future delivery date
   B. price
   C. quantity
   D. all of the above
   E. none of the above

2. A currency futures contract cannot mature in _____.
   A. September
   B. June
   C. December
3. The forward market is regulated by the _____.
   A. SEC
   B. CME
   C. organized exchanges
   D. Commodity Futures Commission
   E. none of the above

4. The _____ margin is the amount market participants must deposit into their account at the time of entering into a futures contract.
   A. maintenance
   B. initial
   C. performance bond
   D. minimum
   E. none of the above

5. The holder of a call option will benefit if the underlying currency's price _____.
   A. falls
   B. stabilizes
   C. rises
   D. remains the same
   E. a call option holder will never benefit

6. Futures contracts of the following currencies are traded on the Chicago Mercantile Exchange except ____.
   A. British pound
   B. euro
   C. Japanese yen
   D. Swiss franc
   E. New Zealand dollar

7. A put option with a strike price less than the current spot price is said to be _____.
   A. profitable
   B. in-the-money
   C. out-of-the-money
   D. at-the-money
   E. none of the above

8. A put option with a strike price higher than the current spot price is said to be _____.
   A. profitable
   B. in-the-money
   C. out-of-the-money
   D. at-the-money
   E. none of the above

9. A call option with a strike price less than the current spot price is said to be _____.
   A. profitable
   B. in-the-money
   C. out-of-the-money
   D. at-the-money
   E. none of the above

10. Currency futures contracts are acquired for the following purposes ___.
    A. hedging
    B. speculation
    C. arbitrage
    D. hedging and speculation
    E. all of the above
11. Any option with a positive intrinsic value is said to be _____.
   A. profitable
   B. in-the-money
   C. out-of-the-money
   D. at-the-money
   E. none of the above

12. Currency futures contract mature on the _____ in the designated months.
   A. first Friday
   B. first Monday
   C. third Friday
   D. last Friday
   E. third Wednesday

13. The holder of a put option will benefit if the underlying currency's price _____.
    A. falls
    B. stabilizes
    C. remains the same
    D. rises
    E. a put option holder will always benefit

14. The _____ margin is a set minimum margin customers must always maintain in their own account.
    A. maintenance
    B. initial
    C. performance bond
    D. minimum
    E. none of the above

15. Currency futures contracts have _____ days in a year designated as maturity dates.
    A. 30
    B. 45
    C. 90
    D. 4
    E. 2

16. A U.S. company has an account receivable of 10,000,000 marks from a German company to be paid in three months. The three-months forward rate for the German mark is $0.50 per mark. The approximate value of the account receivable in U.S. dollars, if the company makes a forward hedge, will be $_____.
    A. 20,000,000
    B. 20,290,000
    C. 5,000,000
    D. 5,500,000
    E. 10,500,000

17. Lisa Kim enters a futures contract for September delivery (September 19) of 62,500 pounds on March 19. The futures exchange rate is $1.65 per pound. She believes that the spot rate for pounds on September 19 will be $1.67 per pound. The margin requirement is 2 percent. If her expectations are correct, her annualized rate of return on investment will be _____ %.
    A. 250
    B. 200
    C. 150
    D. 121
    E. 105

18. Assume that the current spot rate for the British pound is $1.65. A call option with a strike price of $1.62 is said to be _____.
A. in the money  
B. out of the money  
C. at the money  
D. above the money  
E. below the money  

19. Assume the current spot rate for the British pound is $1.65. A put option with a strike price of $1.62 is said to be _____.
   A. in the money  
   B. out of the money  
   C. at the money  
   D. above the money  
   E. below the money  

20. The call premium per Canadian dollar on April 19 is $0.04, the expiration date is September 19, and the strike price is $0.80. Ken Lee believes that the spot rate for the Canadian dollar will rise to $0.92 by September 19. If his expectations are correct, his profit from speculating three call options (Can $150,000) will be $_____.
   A. 8,000  
   B. 9,000  
   C. 10,000  
   D. 11,000  
   E. 12,000  

21. The call premium per Canadian dollar on April 19 is $0.04, the expiration date is September 19, and the price is $0.80. Ken Lee purchased three call options for Canadian dollars (Can $150,000) on April 19. He decides to let his options expire unexercised on September 19 because the spot rate for the Canadian dollar fell to $0.70 on that day. His total loss from this speculation will be $_____.
   A. -10,000  
   B. -9,000  
   C. -8,000  
   D. -7,000  
   E. -6,000  

22. On June 10, the closing exchange rate of French francs was $0.15. Puts which would mature on September 19 with a strike price of $0.16 were traded at $0.05. The intrinsic value of the call on June 10 was $_____.
   A. +0.31  
   B. +0.05  
   C. +0.01  
   D. -0.05  
   E. -0.01  

23. The premium for a British call pound with a strike price of $1.75 is $0.07. The breakeven point is $____ for the buyer of the call.
   A. 1.68  
   B. 1.75  
   C. 1.80  
   D. 1.82  
   E. 1.90  

24. A U.S. company wants to use a currency put option to hedge 10 million French francs in accounts receivable. The premium of the currency put option with a strike price of $0.20 is $0.05. If the option is exercised, the total amount of dollars received after accounting for the premium payment is $_____.
   A. 1,500,000  
   B. 2,000,000
25. The premium for a German put mark with an exercise price of $0.70 is $0.50. The breakeven point is $____ for the buyer of the put.

A. 0.70
B. 0.65
C. 0.55
D. 0.50
E. 0.45

CH 7

1. Financial swap markets have emerged in recent years because of the following reasons:

A. exchange rates fluctuate widely
B. interest rates fluctuate widely
C. forward markets may not function properly
D. currency futures are available only for selected currencies
E. all of the above

2. Financial swaps are used by the following organizations:

A. multinational companies
B. commercial banks
C. world organizations
D. sovereign governments
E. all of the above

3. The origins of the swap market are usually regarded as an outgrowth of the following financial instruments:

A. parallel loans
B. back to back loans
C. commercial paper
D. treasury bills
E. A and B

4. Parallel and back to back loans attained prominence in the 1970s when .

A. the U.S. had trade deficits
B. Japan had trade surpluses
C. the British government imposed taxes on foreign currency transactions
D. the British government devalued its currency
E. none of the above

5. Typically, parallel loans involve the following parties .

A. two multinational firms
B. three multinational firms
C. two subsidiary firms
D. five multinational firms
E. A and C

6. A back-to-back loan usually involves companies in different countries.

A. two, two
B. four, four
C. three, three
D. A and B
7. The shortcomings of parallel and back to back loans are .
   A. difficulty of finding counterparties
   B. a non-compliance by one of the parties
   C. difficulty of finding exact matching needs
   D. A and B
   E. A, B, and C

8. Currency swaps overcome the shortcomings of parallel and back-to-back loans because of .
   A. specialized swap dealers and brokers
   B. their simplicity
   C. their cost effectiveness
   D. A and B
   E. A, B, and C

9. The first currency swap between the World Bank and IBM was arranged in 1981 by _____.
   A. Citicorp
   B. BankAmerica
   C. Solomon Brothers
   D. Merrill Lynch
   E. none of the above

10. The amount of outstanding interest rate swaps is ___ than that of outstanding currency swaps.
    A. smaller
    B. neither larger nor smaller
    C. larger
    D. two times larger
    E. two times smaller

11. A currency swap bank is usually .
    A. an end user
    B. a financial intermediary
    C. a currency speculator
    D. A and B.
    E. all of the above

12. A currency swap broker is a swap bank who .
    A. uses his or her own account in completing transactions
    B. is strictly an agent to take orders from her client
    C. a currency speculator
    D. A and B.
    E. all of the above

13. Interest rate swaps involve counterparties who want to .
    A. exchange a floating rate commitment for a fixed rate loan
    B. exchange debt for stock
    C. exchange a short-term loan for a long-term loan
    D. A and B
    E. none of the above

    A. one currency
    B. two currencies
    C. foreign stocks
15. Call swaptions are attractive when interests are expected to .
   A. fall
   B. rise
   C. stay the same
   D. A and B
   E. none of the above

16. An interest rate floor in currency swaps sets .
   A. a maximum rate on floating interest rate payments
   B. a maximum rate on fixed interest rate payments
   C. a minimum rate on floating interest rate payments
   D. a minimum rate on fixed interest rate payments
   E. none of the above

17. The basic motivations for swaps are shown below .
   A. to provide protection against future changes in exchange rates
   B. to eliminate interest rate risks arising from normal commercial operations
   C. to reduce financing costs
   D. A and B
   E. all of the above

18. Mortgage companies may use interest rate swaps mainly because .
   A. they have short-term liabilities and long-term assets
   B. they have long-term debt
   C. they have mortgage loans
   D. A and B.
   E. none of the above

19. Interest rate swaps are usually possible because international financial markets in different countries are .
   A. efficient
   B. perfect
   C. imperfect
   D. A and B
   E. none of the above

Use the following information to answer the next three questions:
Assume that you are a swap dealer and have just acted as a counterparty in an interest rate swap. The notional principal for the swap was $7.5 million and you are now obligated to make five annual payments of 8 percent interest. The floating rate that you will receive is 8.2 percent, and the floating payments to you are annual as well.

20. If interest rates do not change over the next five years, what will be your annual net inflow?
    A. $10,000
    B. $15,000
    C. $25,000
    D. $40,000
    E. $55,000

21. What is the net present value of your swap agreement at a discount rate of 8 percent?
    A. $10,000
    B. $25,993
    C. $55,883
22. 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

Use the following information to answer the next five questions:
Two counterparties agree to enter a foreign currency swap between American dollars and Swiss francs. One dollar is currently worth 1.4 francs. The American dollar payor will provide $500,000. The interest rate on the dollar is 9 percent, and the Swiss franc rate is 8 percent. The swap calls for a life of three years with annual payments.

23. How much will the provider of the dollar pay at the outset?
   A. SFr700,000
   B. SFr500,000
   C. SFr357,143
   D. SFr200,000
   E. SFr125,000

24. 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

25. If a net payment is recorded for interest in year one and exchange rates do not change, what will be the net payment?
   A. $1,000
   B. $2,000
   C. $3,000
   D. $5,000
   E. $7,000

26. What will be the total payment in francs by the borrower of dollars for year 3?
   A. SFr756,000
   B. SFr500,000
   C. SFr400,000
   D. SFr350,000
   E. SFr53,500

27. What will be the total payment in dollars by the borrower of francs for year 3?
   A. $150,000
   B. $245,000
   C. $540,000
   D. $545,000
   E. $600,000
1. Foreign exchange markets are efficient if:
   A. there are many informed investors
   B. there are no government regulations
   C. there are no barriers of funds movement
   D. transaction costs are negligible
   E. all of the above

2. In empirical studies on foreign exchange rate forecasting, efficiency best describes the general consensus on market efficiency.
   A. strong-form
   B. semistrong-form
   C. weak-form
   D. semiweak-form
   E. all of the above

3. A fundamental analysis in exchange rate forecasting involves the following except:
   A. inflation rates
   B. interest rates
   C. the balance of payments
   D. money supply
   E. price trends

4. A technical analysis in exchange rate forecasting involves the following except:
   A. past price
   B. volume movements
   C. price charting
   D. political factors
   E. filter rule

5. There are three kinds of efficient markets. These are:
   A. weak form efficient market
   B. semi-strong form efficient market
   C. strong form efficient market
   D. perfectly efficient form market
   E. A, B, and C

6. Three methods are widely used to forecast flexible exchange rates. These three methods are:
   A. technical analysis, fundamental analysis, and forward rates
   B. technical analysis, market-based forecasts, and spot rates
   C. fundamental analysis, market-based forecasts, and forward rates
   D. fundamental analysis, technical analysis, and market-based forecasts
   E. all of the above

7. Dufey and Giddy suggested that currency forecasting can be consistently useful or profitable only if one of the four conditions is met. These conditions include the following:
   A. the forecaster has exclusive use of a superior forecasting model
   B. the forecaster has consistent access to information before other investors
   C. the forecaster predicts the nature of government intervention in the foreign exchange market
   D. A and B
   E. A, B, and C

8. If the forward rate is the best available predictor (unbiased) of future spot rates, the
forward market is .
A. inefficient  
B. efficient  
C. semi-efficient  
D. B and C  
E. none of the above

9. Forecasting needs of the multinational company do not include .
A. hedging decision  
B. working capital management  
C. long-term investment analysis  
D. long-term financing decision  
E. speculation

10. Two primary methods of technical analysis consist of .
A. charting and mechanical rules  
B. charting and forward rates  
C. mechanical rules and spot rates  
D. charting and the theory of purchasing power parity  
E. multiple regression analysis and spot rates

11. Two major qualities of mechanical rules as compared with chartists are .
A. subjective judgement and objective skill  
B. 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.
A. fundamental analysis  
B. market-based forecast  
C. econometrics model  
D. forward-rate forecasting model  
E. technical analysis

A. spot rate, forward rate, and inflation rate  
B. spot rate, forward rate, and exchange rate  
C. spot rate, forward rate, and interest rate  
D. spot rate, forward rate, and wage rate  
E. technical analysis and fundamental analysis

14. The four-step sequence as a general forecasting procedure under a fixed rate system consists of .
A. assessing the balance of payments outlook  
B. measuring the magnitude of required adjustment  
C. timing of adjustment  
D. nature of adjustment  
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 not one of the three ways to restore the balance-of-payments equilibrium?
A. the theory of purchasing power parity  
B. forward exchange rate  
C. free market or black market rate
D. all of the above
E. none of the above

16. Whether a country will devalue its currency under a fixed rate system is ultimately a decision.
   A. economic
   B. momentary
   C. political
   D. fiscal
   E. international

17. In the case of a structural balance of payments deficit, policy makers attempt to implement a number of corrective policies, excluding.
   A. tight monetary policy
   B. tight fiscal policy
   C. exchange controls
   D. higher government spending
   E. wage controls

Use the following information to answer the next two questions.
Assume that the Canadian dollar appreciates from $0.65 at the beginning of the year to $0.70 at the end of the year.

18. What is the percentage appreciation of the Canadian dollar?
   A. 4.69%
   B. 5.69%
   C. 6.69%
   D. 7.69%
   E. 8.69%

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

CH 9
1. In accounting exposure, if exposed assets are greater than exposed liabilities, foreign currency depreciations will produce exchange _____.
   A. appreciation
   B. losses
   C. depreciation
   D. gains
   E. A and B

2. Which of the following is not true about translation risk?
   A. it affects the company's ability to raise capital
   B. translation does not involve actual conversion
   C. the gain and losses are purely of a paper nature
   D. financial statement items are simply restated
   E. None of the above

3. The potential effect of exchange rate fluctuations on foreign direct investment is expressed as _____ exposure.
   A. translation
4. Which of the following is not a desirable factor for a multinational firm to establish a subsidiary in a country?
   A. price stability
   B. availability of funds
   C. high rates of taxation
   D. favorable balance of payments
   E. availability of local labor

5. The temporal method of currency translation is almost similar to the monetary/non-monetary method except the following _____.
   A. accounts receivable at historical cost
   B. accounts receivable at market price
   C. fixed assets at historical cost
   D. inventory at historical cost
   E. inventory at market price

6. FASB No. 8 is the same as the following translation method _____.
   A. monetary/non-monetary method
   B. current rate method
   C. monetary/non-monetary method
   D. exchange rate method
   E. temporal method

7. Under FASB No. 52, companies are required to show exchange gains or losses in the following _____.
   A. quarterly income statement
   B. annual income statement
   C. stockholders' equity account
   D. the sources and uses of funds statement
   E. none of the above

8. The functional currency is defined as the currency of the environment in which the entity primarily generates and expends cash, and usually refers to the _____ currency.
   A. parent
   B. reporting
   C. recording
   D. home
   E. local

9. Which of the following items is not related to a balance-sheet hedge in translation exposure management?
   A. reduce the level of local currency
   B. tighten credit
   C. delay the collection of hard-currency receivables
   D. options market hedge
   E. increase hard-currency assets

10. Which of the following is not a translation method?
    A. current/noncurrent
    B. monetary/nonmonetary
11. A(n) _____ hedge protects the company from adverse exchange rate movements but allow the company to benefit from favorable movements.
   A. balance-sheet
   B. forward market
   C. money market
   D. options market
   E. swap agreement

12. An American firm has just bought merchandise from a British firm for £50,000 on terms of net 90 days. The U.S. company has purchased a 3-month call option of 50,000 pounds at a strike of $1.7 per pound and premium cost of $0.02 per pound. On the day the option matures, the spot exchange rate is $1.8 per pound. Should The U.S. company exercise the option at that time or buy British pounds in the spot market?
   A. exercise the option
   B. buys British pound spot
   C. does not make any difference
   D. cannot tell
   E. none of the above

13. Which of the following is not a means of diversified marketing?
   A. economies of scale
   B. product strategy
   C. pricing strategy
   D. promotional options
   E. market selection

14. Which of the following is not a means of diversified financing?
   A. currency denomination of debt
   B. place of issue
   C. maturity structure
   D. capital structure
   E. none of the above

15. The key economic factor that may be helpful in forecasting devaluation is _____.
   A. balance-of-payments deficit
   B. international monetary reserves
   C. inflation
   D. monetary supply
   E. all of the above

16. A U.S. company has an affiliate in Mexico. This affiliate has exposed assets of 200 million pesos and exposed liabilities of 300 million pesos. If the exchange rate appreciates from $0.0004 per peso to $0.0005 per peso, what is the company's translation gain or loss?
   A. -$10,000
   B. -$15,000
   C. +$10,000
   D. +$15,000
   E. +$40,000

17. McDonnell Douglas sold an airplane to Indian Airlines for 100 million rupees with terms of one year. The spot rate for the Indian rupee is $0.15 per dollar and
McDonnel expects to exchange 100 million rupees for $15 million (100 million x 0.15) when payment is received. If the spot rate for the rupee declines to $0.14 one year from today, what is the potential transaction gain or loss?

A. +$1 million  
B. +$2 million  
C. -$1 million  
D. -$2 million  
E. -$3 million

18. For the coming year, a British subsidiary of an American company is expected to earn an after-tax profit of £50 million and its depreciation charge is estimated at £10 million. The exchange rate is expected to rise from $1.5 per pound to $1.7 per pound for the next year. What is the potential economic gain or loss?

A. +$1.5 million  
B. +$1.2 million  
C. -$1.5 million  
D. -$1.2 million  
E. -$2.0 million

19. For the coming year, a British subsidiary of an American company is expected to have an economic gain of $15 million because of the favorable exchange rate. If the anticipated business activity were to stay the same for the next three years, what would be the total economic gains or loss for three years?

A. +$15 million  
B. +$30 million  
C. +$45 million  
D. +$50 million  
E. -$45 million

20. A U.S. company has bought a number of TV sets from a British company for £100,000. This payment must be made in British pounds 90 days from today. The following quotations and expectations exist: Present spot rate $1.8000  
90-day forward rate $1.8090 U.S. interest rate 8.00% British interest rate 10.00%  
Which hedging alternative is more attractive: forward market hedge or money  
Market hedge?

A. forward market hedge  
B. money market hedge  
C. options market hedge  
D. does not make any difference  
E. none of the above

21. Assume that a subsidiary in Singapore needs SD500,000 and that a credit swap has been proven to be the least costly hedged alternative. The cost of the direct loan is 20 percent. The current exchange rate is $0.5000 per SD1. To obtain SD500,000 for the subsidiary in Singapore, the parent must open a $250,000 credit in favor of a Singapore bank. The Singapore bank charges 10 percent per year on the DM500,000 made available to the subsidiary and pays no interest on the $250,000 deposit that the parent has deposited in the bank. What is the exchange rate, which would make the direct loan and the credit swap equally attractive?

A. SD2.2 per dollar  
B. SD2.5 per dollar  
C. SD3.0 per dollar
22. A U.S. company has an account payable of £10,000 for a British company. The current spot rate for the pound is $2.01 and the three-month forward rate for the pound is $2.02. What will be the approximate value of the account payable in dollars if the company make a forward hedge?
   A. $20,200  
   B. $20,100  
   C. $20,000  
   D. $20,300  
   E. $20,500

23. A U.S. company has an account payable of £10,000 for a British company. The current spot rate for the pound is $2.01, the 3-month forward rate for the pound is $2.02, the 3-month interest rate in the United States is 2%, and the 3-month interest rate in Britain is 3%. What will be the approximate value of the account payable in dollars if the company makes a money-market hedge?
   A. $20,219  
   B. $19,999  
   C. $19,905  
   D. $19,515  
   E. $18,800

24. An American firm has just bought merchandise from a British firm for £50,000 on terms of net 90 days. The U.S. company has purchased a 3-month call option on 50,000 pounds at a strike price of $1.7 per pound and a premium cost of $0.02 per pound. On the day the option matures, the spot exchange rate is $1.8 per pound. What will be the approximate value of the pound payable in U.S. dollars if the U.S. company exercises the option at that time?
   A. $91,000  
   B. $90,000  
   C. $86,000  
   D. $85,000  
   E. $81,000

CH 10

1. A dollar denominated deposit made in a bank in _____ does not give rise to Eurodollars.
   A. UK  
   B. France  
   C. Japan  
   D. the U.S.  
   E. Saudi Arabia

2. Which of the following does not contribute to the efficiency of the Eurodollar mechanism?
   A. The U.S. imposed no restrictions on nonresident transactions  
   B. Foreign entities are free to transact with the U.S. 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

3. The risk that a foreign country may prevent its banks from repaying interbank loans or
deposits is known as _____ risk.
   A. Credit  
   B. Liquidity  
   C. Sovereign  
   D. Foreign Exchange  
   E. Settlement

4. Which of the following is not a risk faced by participating banks in the interbank market?
   A. Credit risk  
   B. Stability risk  
   C. Foreign exchange rate risk  
   D. Sovereign  
   E. Settlement

5. A certificate of deposit has the following features:
   A. A negotiable instrument  
   B. Issued by a bank  
   C. A time deposit  
   D. A and B  
   E. A, B and C

6. Which of the following does not exist?
   A. LIBOR  
   B. KIBOR  
   C. SIBOR  
   D. MIBOR  
   E. none of the above

7. Which of the following does not contribute to the development of the Asian currency market in Singapore?
   A. Asian dollar deposits would attract other deposits  
   B. They will increase banking activities  
   C. They will increase income from financial services  
   D. The existence of foreign deposits and foreign banks in Singapore will make it politically unstable  
   E. Singapore is a logical center

8. The Bank for International Settlements is a bank in _____ which facilitates transactions among central banks.
   A. The United States  
   B. Japan  
   C. Germany  
   D. The United Kingdom  
   E. Switzerland

9. Interest rates on Eurodollar deposits may be higher than the rates on deposits in the U.S. because _____.
   A. Eurobanks are keen on attracting dollar denominated deposits  
   B. Eurodollar deposits are free of regulations  
   C. Eurobanks are free of reserve requirements  
   D. A and B  
   E. A, B and C

10. Which of the following does not describe the qualities of a foreign bond?
    A. Foreign bonds are sold in a particular country by a foreign borrower  
    B. They are underwritten by a syndicate of members from the foreign country  
    C. They are denominated in the currency of the borrower's country
11. "Three Cs" of central banking include _____.
   A. coordination
   B. coordination
   C. consultation
   D. A and B
   E. A, B and C

12. The holders of _____ bonds are allowed to receive their interest income in the currency of their choice.
   A. Currency
   B. Currency-cocktail
   C. Fixed-rate
   D. Equity-related
   E. Currency-option

13. Which of the following is not a use of Eurodollar?
   A. European banks may redeposit their Eurodollars
   B. They make loans to multinational companies
   C. Many countries use Eurodollars to improve their international reserves
   D. None of the above
   E. A, B and C

14. Interest rates on Eurodollar loans may be lower than those on loans in the U.S. because _____.
   A. Cost of information collection is low
   B. Eurobanks can lend a larger percentage of their deposits
   C. Eurobanks have no regulatory expenses
   D. All of the above
   E. None of the above

15. Repayment by amortization is made possible by _____.
   A. Fixed maturities
   B. Fixed rate of interest
   C. A set of equal periodic payments
   D. A and B
   E. A, B and C

16. Which of the following is not a type of international bonds?
   A. Straight bonds
   B. Convertible bonds
   C. Floating-rate bonds
   D. Zero-coupon bonds
   E. None of the above

17. An option to buy a stated number of common shares at a stated price during a prescribed period is known as a _____.
   A. Forward
   B. Warrant
   C. Future
   D. Coupon
   E. Voucher

18. _____ risk is the risk of a breakdown on the major wire-transfer system.
   A. Liquidity
   B. Foreign exchange
   C. Settlement
   D. Sovereign
19. Eurobonds are long-term obligations denominated in outside the country of issue.
   A. Swiss franc
   B. US dollars
   C. Japanese yen
   D. British pounds
   E. all of the above

20. Eurodollars can be created in _____.
   A. Europe
   B. Asia
   C. Latin America
   D. Africa
   E. All of the above

21. The main characteristics of fixed rate bonds do not include _____.
   A. A fixed interest rate
   B. A fixed maturity
   C. Unsecured debentures
   D. No interest payment until maturity
   E. A, B, and C

22. If the U.S. government imposes additional taxes on interest paid on U.S. bank deposits, the likely effect of this regulation is to _____.
   A. Expand the Eurodollar market
   B. Reduce the Eurodollar market
   C. Have no impact on the size of the Eurodollar market
   D. Increase U.S. bank deposits
   E. None of the above

23. Euronote issue facilities consist of _____.
   A. Euronotes
   B. Eurocommercial paper
   C. Euro-medium-term notes
   D. A and B
   E. A, B, and C

CH 11

1. Brady Bonds designed to solve the international debt crisis of the 1980s recommends that globally active banks maintain capital equal to at least ____ percent of their assets.
   A. 7
   B. 8
   C. 9
   D. 10
   E. 11

2. Country risk rankings can be found in the following journal _____.
   A. IMF Staff Papers
   B. Euromoney
   C. the Journal of International Business Studies
   D. Multinational Business Review
   E. Journal of Finance

3. Which of the following countries does not have debt-servicing problems of international debt?
A. South Korea
B. Mexico
C. Thailand
D. Indonesia
E. Taiwan

4. Major types of foreign banking offices include _____.
   A. representative offices, correspondent banks, and branch banks
   B. subsidiaries, Edge Act Corporations, and international banking facilities
   C. agencies and banking consortia
   D. A and C
   E. A, B, and C

5. _____ obtain information, give advice, and arrange local contacts for their parent bank's business customers.
   A. correspondent banks
   B. representative offices
   C. branch banks
   D. subsidiaries
   E. international banking facilities

6. The _____ banking system is an informal arrangement in which a bank in a country maintains deposit balances with banks in foreign countries and looks to them for services and assistance.
   A. international
   B. representative office
   C. subsidiary
   D. correspondent
   E. none of the above

7. A _____ bank is a permanent group of banks ready to handle large international loans.
   A. Correspondent
   B. Consortium
   C. Representative
   D. Subsidiary
   E. None of the above

8. Which of the following is not a key clearing system of interbank fund transfers?
   A. Clearing House Interbank Payments System (CHIPS)
   B. Clearing House Payments Assistance System (CHPAS)
   C. Society for Worldwide Interbank Financial Telecommunications (SWIFT)
   D. International Interbank Financial Telecommunications (IIFT)
   E. A, B, and C

9. The _____ is used to move dollars between New York offices of about 90 financial institutions that handle 95 percent of all foreign exchange trades and almost all Eurodollar transactions.
   A. CHIPS
   B. CHPAS
   C. SWIFT
   D. IIFT
   E. none of the above

10. The international debt crisis of the 1980s started when the following countries could not make international debt payments.
A. Mexico, Brazil, and Taiwan
B. Brazil, Mexico, and Argentina
C. Argentina, Brazil, and Korea
D. Taiwan, Korea, and Mexico
E. all of the above

11 Junk bonds are those bonds whose ratings are _____.
   A. triple A and lower
   B. double C and lower
   C. single A and higher
   D. double B and lower
   E. triple B and lower

12. A country risk analysis does not include _____.
   A. political risk
   B. economic risk
   C. objective criteria
   D. company financial analysis
   E. foreign relations

13. The first major blow to the international banking system came in August 1982, when _____ announced that it could not meet its regularly scheduled payments to international creditors.
   A. Mexico
   B. Brazil
   C. Argentina
   D. Venezuela
   E. the Soviet Union

14. Lenders, borrowers, the IMF, and the World Bank, worked together to overcome the global debt crisis of the 1980's through _____.
   A. rescheduling and refinancing
   B. additional loans
   C. restrictive economic policies
   D. A and B
   E. A, B, and C

15. Country risk can be assessed by _____.
   A. debt ratios, overall country creditworthiness, and sovereign-government bond ratings
   B. the United Nations
   C. the European Union
   D. the U.S. State Department
   E. G-7 Countries

16. A(n) _____ loan is a credit in which a group of banks makes funds available on common terms and conditions to a particular borrower.
   A. bridge
   B. unsyndicated
   C. syndicated
   D. ceiling
   E. none of the above

   A. Korea
   B. Thailand
18. The causes of the Asian financial crisis fall into one of two theories __ .
   A. the fundamental view and the pessimistic view
   B. the pessimistic view and the panic view
   C. the panic view and the optimistic view
   D. the pessimistic view and the optimistic view
   E. the fundamental view and the panic view

19. _____ is critical for commercial banks to safeguard their international loans against country risk.
   A. Granting credit to any government
   B. Country-risk assessment
   C. Credit management by politicians
   D. A and C
   E. none of the above

20. _____ country credit ratings are based on views by a cross section of specialists on each country with particular reference to some economic and other factors.
   A. The Economist's
   B. The IMF's
   C. Euromoney's
   D. The World Bank
   E. None of the above

21. _____ risk is the possibility that borrowers in a country will not honor past obligations.
   A. Government
   B. Economic
   C. Socio-economic
   D. Country
   E. None of the above

23. The World Bank classifies all debt-burdened nations as _____ countries.
   A. severely indebted low-income
   B. severely indebted middle-income
   C. moderately indebted low-income
   D. moderately indebted middle-income
   E. all of the above

CH 12

1. Which of the following is not a basic objective of documentation in foreign trade?
   A. to assure that the exporter will receive the payment
   B. to assure that the importer will receive the goods
   C. to eliminate risk of noncompletion
   D. to reduce foreign exchange risk
   E. none of the above

2. Which of the following is not an important document in foreign trade?
   A. a check for the value of goods
   B. a draft
C. bill of lading
D. a letter of credit
E. none of the above

3. ______ risk is the potential exchange loss from outstanding obligations as a result of exchange-rate fluctuations.
   A. Trade
   B. Exchange
   C. Finance
   D. Noncompletion
   E. Transaction

4. Foreign exchange risk can be reduced by using _____.
   A. forward contracts
   B. futures contracts
   C. currency options
   D. currency denomination
   E. all of the above

5. Which of the following is not a condition for drafts to be negotiable?
   A. must be in writing, signed by the drawer
   B. must contain a promise to pay a certain sum if goods are received
   C. must contain an order to pay
   D. must be payable on sight or at a specified date
   E. must be made out to order or bearer

6. If a draft is made to bearer, payment should be made to _____.
   A. a bank
   B. drawer
   C. acceptor
   D. anyone who presents the draft
   E. all of the above

7. If a draft is accepted by a bank, it becomes a _____.
   A. valid draft
   B. demand draft
   C. usance draft
   D. banker's acceptance
   E. drawee's acceptance

8. Forms of countertrade include the following except ___.
   A. simple barter
   B. clearing arrangement
   C. switch trade
   D. counterpurchase
   E. mutual agreement

9. Documentary drafts require various shipping documents such as ____.
   A. bills of lading
   B. insurance certificates
   C. commercial invoices
   D. A and B
   E. A, B, and C
10. When IBM ships products to its subsidiary in Argentina, it will most likely use a _____ draft.
   A. sight
   B. clean
   C. D/P
   D. demand
   E. all of the above

11. If a carrier is instructed to deliver goods to an importer, a _____ bill of lading is used.
   A. straight
   B. order
   C. documentary
   D. on-board
   E. clean

12. A(n) _____ bill of lading does not guarantee that the goods have been loaded on the vessel.
   A. on-board
   B. foul
   C. received-for-shipment
   D. straight
   E. order

13. Which of the following is not true of a letter of credit?
   A. it is a document
   B. issued by a bank
   C. at the request of the exporter
   D. the bank agrees to honor a draft drawn on the importer
   E. payable in the designated currency

14. If a letter of credit can be neither cancelled nor modified without the consent of all parties, it is known as _____.
   A. revolving
   B. irrevocable
   C. revocable
   D. unconfirmed
   E. unclean

15. If an exporter is doubtful about an issuing bank's ability to pay, he will expect a domestic bank to join the transaction in a _____ letter of credit.
   A. revolving
   B. irrevocable
   C. revocable
   D. unconfirmed
   E. confirmed

16. Which of the following may be required as additional documents in a letter of credit?
   A. commercial invoice
   B. insurance document
   C. consular invoice
   D. certificate of origin
   E. all of the above
17. Which of the following documents should necessarily accompany a draft?
   A. certificate of origin
   B. weight list
   C. packing list
   D. inspection certificate
   E. none of the above

18. A commercial invoice is issued by _____.
   A. exporter
   B. exporter's bank
   C. importer
   D. importer's bank
   E. confirming bank

19. A document that contains a precise description of the goods is known as a _____.
   A. weight list
   B. packing list
   C. commercial invoice
   D. certificate of origin
   E. consular invoice

20. Which of the following is not true of a consular invoice?
   A. provides customs officials with all information
   B. facilitates easy customs clearance
   C. helps customs officials assess duties
   D. issued by the consulate of the exporting country
   E. it is not a title to the goods

21. Which of the following is not a form of offset agreements?
   A. coproduction
   B. licensed production
   C. subcontractor production
   D. cash in advance
   E. technology transfer

22. Which of the following is not a form of countertrade?
   A. barter
   B. consignment
   C. switch trading
   D. counterpurchase
   E. compensation agreement

23. In a _____ countertrade the initial seller receives compensation in products that arise out of the original sale.
   A. consignment
   B. barter
   C. counterpurchase
   D. buy-back agreement
   E. switch trading

24. Buying a company's accounts receivable on a nonrecourse basis is known as _____.
   A. switch trading
   B. financing
C. factoring
D. funding
E. free trade

25. Which of the following is not necessarily a party to a forfaiting transaction?
   A. exporter
   B. importer
   C. broker
   D. bank
   E. forfeiter

CH 13

1. Internal sources of funds are those funds generated within a (n) _____.
   A. network of several banks and a company's overseas affiliates
   B. network of independent companies
   C. parent-affiliate network
   D. pre-determined period of time
   E. period of time to be determined

2. Every new foreign subsidiary must receive some funds in the form of equity to satisfy authorities in the _____ about its solvency.
   A. host country and outside creditors
   B. foreign country
   C. host country
   D. department of the Treasury
   E. foreign and host countries

3. Equity contributions of cash are not usually used to _____.
   A. acquire going concerns
   B. expand existing subsidiaries
   C. set up new foreign subsidiaries
   D. determine the financial strength of foreign subsidiaries
   E. buy out local minority interest

4. Which of the following is not a fund provided by operations?
   A. depreciation charges
   B. retained earnings
   C. profits
   D. all of the above
   E. bank loans

5. Funds from the parent company to its subsidiaries include _____.
   A. equity contributions
   B. direct loans
   C. loan guarantees
   D. all of the above
   E. none of the above

6. Important considerations for interest rates on international bank loans include _____.
   A. the prevailing prime lending rate
   B. the credit worthiness of the borrower
   C. the movement in the borrowed currency's value over the life of the loan
   D. all of the above
   E. none of the above
7. The profit remittance derived from equity investments is called _____.
   A. duration
   B. spread
   C. profit sharing
   D. dividend
   E. interest

8. Parent loans to foreign subsidiaries are usually ____ equity contributions.
   A. taxed as an
   B. not taxed as an
   C. more popular than
   D. less popular than
   E. unpopular compared to

9. Parent loans give a parent company _____ from its foreign subsidiary.
   A. less flexibility in repatriating funds
   B. substantial claims on earnings and assets
   C. residual claims on earnings and assets
   D. greater flexibility in repatriating funds
   E. greater restrictions to repatriate funds

10. One important reason for favoring parent loans over equity contributions is _____.
    A. profit sharing considerations
    B. dividend considerations
    C. interest considerations
    D. duration considerations
    E. tax considerations

11. The types of loans with parent guarantees and the availability of such loans depend largely upon _____.
    A. the parent's commitment to financial stability
    B. the parent's commitment to fair play
    C. the parent's prestige and credit standing
    D. the parent's borrowing practice
    E. the parent's lending practice

12. Once a newly formed subsidiary gets on its feet, retained earnings and depreciation are _____.
    A. irrelevant
    B. the major sources of funds
    C. subject to being absorbed by the parent company
    D. controlled by the parent company
    E. no longer controlled by the parent company

13. Project finance has been used to finance a variety of infrastructure projects except _____.
    A. airports
    B. high schools
    C. bridges
    D. highways
    E. power generation projects

14. When there are only a few subsidiaries within a company's family, it is ____ to arrange intersubsidiary loans.
    A. not recommended
    B. somewhat difficult
    C. extremely difficult
D. fairly straightforward
E. impossible

15. If a multinational company needs more funds than the amount that can be reasonably generated within a corporate family, the parent or its foreign subsidiaries _____.
   A. may require restructuring
   B. may need to invest in mutual funds
   C. may go bankrupt
   D. may become insolvent
   E. may seek outside sources of funds

16. Which of the following is not an example of strategic alliances?
   A. project finance
   B. international licensing agreements
   C. marketing arrangements
   D. management contracts
   E. joint ventures

17. Advantages of joint ventures include _____.
   A. tax benefits
   B. local marketing expertise
   C. more capital
   D. all of the above
   E. none of the above

18. Project finance refers to an arrangement where a project sponsor finances a long-term capital project on _____.
   A. a recourse basis
   B. a non-recourse basis
   C. either a non-recourse basis or a recourse basis
   D. both a non-recourse basis and a recourse basis
   E. none of the above

19. An overdraft is a line of credit that permits the customers to _____.
   A. make use of his money when the banks is closed
   B. make use of his money after regular banking hours
   C. make use of his money when required
   D. write unlimited checks
   E. write checks beyond deposits

20. Edge Act and Agreement corporations are subsidiaries of American banks _____.
   A. which are physically located in the Mexico
   B. which are physically located in the United States but engage in International banking operations
   C. that engage in domestic banking operations
   D. which are physically located outside the United States
   E. which are physically located outside the United States and engage in international Operations

21. When foreign subsidiaries need short-term funds for only one purpose, they can obtain the funds _____.
   A. with just a promise to pay the loan back
   B. by signing a letter of credit
   C. by obtaining bridge loans
   D. by signing promissory loans
E. by signing bank drafts

CH 14

1. The fund which cannot be repatriated to their parent company by foreign subsidiaries is called .
   A. a black market fund
   B. a government fund
   C. a special fund
   D. a mutual fund
   E. a blocked fund

2. The ability to relocate working cash balances and profits on a global basis provides multinational firms with several types of arbitrage opportunities. These types of arbitrage opportunities do not include arbitrage.
   A. tax
   B. financial market
   C. regulatory system
   D. commodity market
   E. both A and B

3. Fund flows from parent to subsidiary do not include .
   A. the initial investment from the parent
   B. intracompany loans from the parent
   C. the credit purchase of goods from the parent
   D. the purchase of management services from the parent
   E. the transfer of employees from the parent

4. Which of the following is not a major component of fund flows from subsidiary to parent?
   A. dividend payments from subsidiary
   B. interest payments from subsidiary
   C. royalty payments from subsidiary
   D. payments for goods received from the parent
   E. tax payments from subsidiary

5. An advantage of multilateral netting by a multinational corporation and its foreign affiliates is that it .
   A. reduces the total volume of interaffiliate fund flows
   B. increases the total volume of interaffiliate fund flows
   C. increases foreign exchange risk
   D. increases political risk
   E. reduces the number of employees

6. Leads and lags are a form of working capital management by .
   A. accelerating hard-currency payables payments and delaying soft-currency payables payments
   B. delaying accounts receivable payments and speeding up accounts payable payments
   C. accelerating both receivables and payables payments
D. accelerating soft-currency payables payments and accelerating hard-currency payables payments
E. all of the above

7. According to the transfer pricing regulations, multinational firms are supposed to charge prices to its foreign affiliates based on the following:
   A. total cost
   B. arm's-length prices
   C. average cost
   D. internal prices
   E. none of the above

8. Some multinational companies set up a re-invoicing center which normally:
   A. invoices in the same currency for the buyer and seller of goods and services
   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 U.S. dollar
   E. all of the above

9. Intracompany loans do not include the following transaction(s):
   A. direct loans
   B. credit swaps
   C. back to back loans
   D. both B and C
   E. currency swaps

10. Credit swaps do not include the following party:
    A. the parent company
    B. the foreign company
    C. a bank
    D. a foreign government
    E. both A and B

11. Multinational firms may be able to repatriate funds from foreign affiliates through the following method(s):
    A. royalty payments
    B. management fees
    C. dividend payments
    D. adjustment of transfer prices
    E. all of the above

12. Which of the following is not related to the traditional objectives of multinational firms' cash management?
    A. to minimize the cost of funds
    B. to improve liquidity
    C. to improve the return on investment
    D. to reduce risks
    E. to pay the same amount of dividend year after year

13. Centralized international cash management requires each local subsidiary to:
    A. do whatever it wants with its excess cash
    B. hold the minimum cash balance
    C. invest in foreign exchange markets
D. invest in local capital markets
E. invest in long-term securities

14. The most important factor affecting the location of international cash centers is probably.
   A. the local government's political stability and its attitude toward foreign-based companies
   B. having enough cash balances at the local subsidiary
   C. exchange rate volatility
   D. the local government's ability to export oil
   E. all of the above

15. Major categories of a float do not include the following ___.
   A. invoicing float
   B. credit float
   C. mail float
   D. processing float
   E. transit float

16. The "just-in-time" inventory management was initiated by.
   A. the United States
   B. Germany
   C. Japan
   D. the United Kingdom
   E. Korea

17. A 1996 study by Ricci and Morrison found that 80 percent of Fortune 200 companies use wire transfers, 50 percent poor their cash, and almost half net payments and transfer funds electronically.
   A. sometimes; sometimes; sometimes
   B. often; often; often.
   C. often; sometimes; rarely.
   D. rarely; rarely; rarely.
   E. often; often; rarely.

18. Transfer pricing has been used by multinational firms to achieve the following objectives:
   A. minimize income taxes
   B. minimize tariff payments
   C. minimize foreign exchange controls
   D. operate working capital effectively
   E. all of the above

19. Re-invoicing centers are set up in tax haven countries to do the following.
   A. charge higher prices
   B. meet different accounting standards
   C. bypass government restrictions and/or avoid taxes
   D. A and B
   E. A, B, and C

20. Multinational companies frequently unbundle remittances into separate flow categories in order to.
   A. avoid taxes
   B. minimize the size of profit repatriation
   C. meet the accounting standards
   D. A and B
   E. A, B, and C
21. Which of the following is not a popular cash center location.
   A. Luxembourg
   B. The Netherlands
   C. Bermuda
   D. Chile
   E. the Bahamas

22. Intracompany loans do not include .
   A. direct loans
   B. credit swaps
   C. back to back loans
   D. loans under parent guarantees
   E. loans from the World Bank

23. In international cash management, which of the following items is most important?
   A. interest rate differential between two countries
   B. inflation differential between two countries
   C. interest rate and foreign exchange rate comparisons between two countries
   D. A and B
   E. A, B, and C

24. Which of the following is not one of the ways that a multinational company can delay its payments?
   A. mail
   B. electronic fund transfers
   C. more frequent requisitions
   D. floats
   E. none of the above

25. A U.S. company has $10,000 in cash available for 45 days. It can earn 1 percent on 45-day investment in the United States. Alternatively, if it converts the dollars to German marks, it can earn 1.5 percent on a German deposit for 45 days. The spot rate of the German mark is $0.50. The spot rate 45 days from now is expected to be $0.40. Should this company invest its cash in the United States or in Germany?
   A. In the United States
   B. In the Germany
   C. It does not make any difference
   D. All of the above
   E. None of the above

26. A German investor has DM100,000 to invest for one year. U.S. Treasury bills offer a yield of 11 percent. The current exchange rate of the mark is $0.50. What is the yield on the investment if the exchange rate of the mark is $0.46 at the end of the year?
   A. 10.25%
   B. 12.55%
   C. 15.00%
   D. 20.65%
   E. 25.00%

27. The one-year U.S. interest rate is 10 percent, and the one-year Italian interest rate is 13 percent. If a U.S. company invests its funds in Italy, by what percentage would the Italian lira have to depreciate to make its effective interest rate the same as the U.S. interest rate from the U.S. company's perspective?
28. A U.S. investor has $5 million in excess cash that it has invested in Chile at an annual interest rate of 60 percent. The U.S. interest rate is 9 percent. By how much would the Chilean peso have to depreciate to cause such a strategy to backfire?
   A. -10.55%
   B. -20.00%
   C. -31.88%
   D. -35.00%
   E. -42.50%

CH 15

1. International portfolio diversification, compared to a purely domestic portfolio diversification, in general will .
   A. increase risk
   B. decrease risk
   C. have the same amount of risk
   D. all of the above
   E. cannot tell

2. is not a major cause of systematic (undiversifiable) risk.
   A. a worldwide recession
   B. a world war
   C. world energy supply
   D. both A and B
   E. company management change

3. is/are not a major cause of unsystematic (diversifiable) risk.
   A. wildcat strikes
   B. new competitors
   C. new product management
   D. worldwide inflation
   E. both B and C

4. is not a major component of the capital asset pricing model.
   A. an expected rate of return on a security
   B. the riskless rate of return
   C. the market rate of return
   D. systematic risk
   E. the historical price of the stock

5. A correlation coefficient in portfolio management measures .
   A. the degree of correlation between two or more assets
   B. the degree of variance
   C. the degree of past relationship
   D. the degree of certainty
   E. all of the above
6. Assume that the expected returns of the five portfolios are the same but their standard deviations are as follows. Which of these five portfolios is most risky?
   A. 1.5%
   B. 2.0%
   C. 2.5%
   D. 3.0%
   E. 4.0%

7. Which of the following statements gives the best description of international portfolio?
   A. stock market returns have lower positive correlations across countries than within country
   B. stock market returns have higher positive correlations across countries than within a country
   C. stock market returns are supposed to have zero correlations across countries
   D. stock market returns have lower negative correlations across countries than within a country
   E. stock market returns have independent correlations across countries

8. According to an empirical study by Solnick, an efficient international portfolio cuts the systematic risk of an efficient U.S. portfolio by %.
   A. 25
   B. 50
   C. 75
   D. 100
   E. 130

9. Aggressive stocks are those stocks that have betas ___.
   A. greater than 1
   B. smaller than 1
   C. equal to 1
   D. can not tell
   E. greater than 1 but small than 2.

10. A portfolio that incurs the smallest risk for a given level of return is called ___.
    A. the efficient frontier
    B. the optimal portfolio
    C. the market portfolio
    D. the international portfolio
    E. the efficient portfolio

11. Methods of international diversification do not include the following ___.
    A. international mutual funds
    B. purchases of US government securities for US investors
    C. American depository receipts
    D. hedge funds
    E. direct purchases of foreign securities

12. According to an empirical study by Levy and Lerman, which of the following portfolios performed best?
    A. U.S. portfolio of stocks and bonds
    B. internationally diversified portfolio of bonds
    C. internationally diversified portfolio of stocks
    D. internationally diversified portfolio of stocks and bonds
    E. German portfolio of stocks and bonds

13. According to a study by Levy and Lerman, an investment in U.S. bonds compared
to internationally diversified bond portfolios is.
A. more efficient
B. less efficient
C. about the same
D. cannot tell
E. relatively efficient

14. According to a study by Levy and Lerman, an investment in U.S. stocks compared to internationally diversified stock portfolios is.
A. more efficient
B. less efficient
C. about the same
D. highly efficient
E. none of the above

15. The Capital Asset Pricing Model (CAPM) assumes that.
A. the undiversifiable risk of a security could be diversified if certain financial parameters are present
B. risks are worth taking as long as they can be diversified
C. the total risk of a security can be partially diversified if certain financial parameters are present
D. the total risk of a security can be totally diversified if certain financial parameters are present
E. the total risk of a security consists of systematic and unsystematic risks

16. The equation known as the security market line consists of the.
A. commercial rate of interest and systematic risk
B. commercial rate of interest and a risk premium
C. riskless rate of interest and a risk premium
D. nominal rate of interest and a risk premium
E. national average rate of interest and a risk premium

17. A correlation coefficient of zero means that the two sets of returns for two securities are.
A. correlated or dependent on each other
B. correlated or independent of each other
C. uncorrelated or dependent on each other
D. uncorrelated or independent of each other
E. none of the above

18. Because the degree of correlation among securities depends on economic factors, most pairs of domestic securities have a correlation coefficient.
A. between 0 and 1.0
B. between 0 and -1.0
C. greater than +1.0
D. between 0 and 2.0
E. equal to 0

19. One way to measure the benefits of international diversification is to compare the.
A. expected return for a portfolio of U.S. and foreign portfolios
B. standard deviation of return for a portfolio of U.S. and foreign portfolios
C. expected return and standard deviation of return for a portfolio of foreign countries
D. expected return of portfolios in industrial countries
E. expected return and standard deviation of return for a portfolio of U.S. and foreign securities combined vs. U.S. securities alone
20. The expected rate of return on a market portfolio is 15 percent. The riskless rate of interest is 7 percent. The beta of a company is 1.4. What is the required rate of return on this company's common equity?
   A. 18.2%.
   B. 22.0%.
   C. 25.6%.
   D. 31.9%.
   E. 55.6%.

21. At present, the riskless rate of return is 5 percent and the expected rate of return on the market portfolio is 11 percent. The expected return for a common stock is 20 percent and the stock's beta is 1.2. This particular common stock is:
   A. undervalued.
   B. overvalued.
   C. fairly valued.
   D. cannot tell.
   E. none of the above.

22. A portfolio manager has decided to invest a total of $2 million on U.S. and Japanese portfolios. The expected returns are 12 percent on the U.S. portfolio and 20 percent on the Japanese portfolio. What is the expected return of an international portfolio with 40 percent invested in the U.S. portfolio and 60 percent invested in the Japanese portfolio?
   A. 32.0%
   B. 16.8%
   C. 15.0%
   D. 12.7%
   E. 10.0%

23. Kenneth Shad has decided to invest a total of $200,000 on U.S. and French portfolios. The expected returns are 20 percent on the French portfolio and 17 percent on an international portfolio. The international portfolio consists of 60 percent invested in the U.S. portfolio and 40 percent invested in the French portfolio. What is the expected return on the U.S. portfolio?
   A. 11%
   B. 12%
   C. 13%
   D. 14%
   E. 15%

24. Assume that the per-share prices of a common stock are $40, $50, and $60 for three days. Calculate the average price, the standard deviation, and the coefficient of variation for the stock.
   A. $50, $10, 0.20
   B. $50, $10, 0.30
   C. $40, $20, 0.40
   D. $60, $20, 0.50
   E. $40, $50, 0.20
CH 16

1. The U.S. Department of Commerce defines foreign direct investment as investment in either _____.
   A. equity or leveraged investments
   B. equity investments alone or investments in a multinational company
   C. a multinational company or in a subsidiary of that multinational company
   D. nominal capital assets or financial assets with a minimum of ten percent equity ownership in a foreign firm
   E. real capital assets or financial assets with a minimum of ten percent equity ownership in a foreign firm

2. Modes of foreign direct investments do not include the following .
   A. construction of new plants abroad
   B. Sales of airplanes to foreign customers
   C. mergers and acquisitions of foreign firms
   D. international joint ventures
   E. international equity alliances

3. Many multinational companies invest their capital abroad _____.
   A. because their subsidiaries desperately need those funds
   B. to utilize their oligopoly-created advantages
   C. to under-utilize their oligopoly-created advantages
   D. because of almost no competition in foreign countries
   E. as a reminder of their international outlook

4. Host countries can benefit from foreign direct investment because it _____.
   A. contributes to tax revenues and helps balance their international balance of payments
   B. provides local workers with an opportunity to learn managerial skills
   C. induces the transfer of technology and skills which are frequently in short supply
   D. increases both national employment and domestic wages
   E. all of the above

5. Construction of new plants abroad requires demand forecast. Such a demand forecast does not depend on the following ___.
   A. political system
   B. competition
   C. income
   D. population
   E. economic conditions

6. Total private flows to developing countries grew more than ___ fold between 1992 and 1999.
   A. eight
   B. nine
   C. ten
   D. eleven
   E. twelve

7. Local companies often control the channels of distribution, the financial resources, and the marketing know-how, but they ______.
   A. do not have competent managers to efficiently run daily operations
   B. do not have access to raw materials
C. do not have the products for marketing to capitalize on their unique market position
D. need the support and experience of multinational companies
E. are overwhelmed by the strength of multinational companies

8. Like all aspects of good business, successful licensing requires _____.
   A. good luck
   B. management and planning
   C. heavy investment in capital markets
   D. a bureaucratic hierarchy
   E. support from a multinational company

9. Since the mid-1990s, ____ has become the largest component of external financing to developing countries.
   A. bank financing
   B. official flows
   C. bond financing
   D. foreign direct investments
   E. equity financing

10. Which of the following statements is false?
    A. a merger is a transaction that combines two companies into one new company.
    B. an acquisition is the purchase of one firm by another firm.
    C. a tender offer is an offer to sell a certain number of shares.
    D. Keiretsu is a Japanese word that stands for financially linked groups of firms.
    E. cross-holdings in Japan have recently weakened.

11. The use of the purchase-of-assets method in case of a merger creates _____.
    A. goodwill
    B. actual profits
    C. additional expenses
    D. additional sales
    E. additional market share

12. Newman said that a growth-oriented company can globally close several types of growth gaps between its sales potential and its current actual performance. These gaps do not include _____.
    A. a product-line gap
    B. a distribution gap
    C. a local gap
    D. a usage gap
    E. a competitive gap

13. Implications of increased private-investment flows include _____.
    A. broader choices and higher returns for investors
    B. higher world-wide interest rates
    C. hindering some capital flows to industrial countries
    D. all of the above
    E. none of the above

14. Which of the following is not an oligopoly-created advantage of foreign investment for investing firms?
    A. proprietary technology
    B. management know-how
    C. access to scarce raw materials
15. A merger can affect the following except ____.
   A. earnings before taxes
   B. employee health care
   C. taxes
   D. capitalization rate
   E. debt capacity

16. A company's acquisition of another firm is economically justified only if _____.
   A. the bought out firm is undervalued
   B. it improves cash flow
   C. the market of the new company is increased
   D. it increases the total value of the firm
   E. it is bought on an all cash basis

17. The appropriate mix of debt and equity ___ the overall cost of capital.
   A. increase
   B. reduce
   C. does not change
   D. unknown
   E. A and B

18. The economic cycles of different countries _____.
   A. are tied to the correlation of multinational companies working in those countries
   B. are required to be unsynchronized
   C. tend to be the mostly synchronized
   D. tend to be totally synchronized
   E. do not tend to be totally synchronized

19. The tax benefit for mergers comes from the fact that the tax loss carryforward _____.
   unless the firm makes sufficient profits to offset it completely.
   A. does not expire at any moment
   B. expires at the end of ten years in the United States
   C. expires at the end of a specified number of years
   D. cannot expire during the first five years in Japan
   E. none of the above

20. When a profitable company acquires companies with a large tax loss carryforward, the merger _____.
   A. increases its net operating income after taxes
   B. decreases its net operating income after taxes
   C. increases its net operating income before taxes
   D. decreases its net operating income before taxes
   E. neither decreases nor increases its net operating income before taxes

21. Foreign companies with more favorable accounting and tax laws _____. bid higher prices for target companies.
   A. always
   B. cannot
   C. may be able to
   D. may not be able to
   E. none of the above
22. An important advantage of mergers is the fact that _____.
A. increased productivity is guaranteed in larger companies
B. larger companies acquire a greater tax advantage
C. smaller companies acquire a greater tax advantage
D. earnings of smaller companies are capitalized at lower rates
E. earnings of larger companies are capitalized at lower rates

23. The potential benefit of international acquisition is the _____.
A. greater tax base of the newly acquired company
B. guaranteed larger rate of return for the acquiring company
C. lower required rate of return for the acquiring company
D. guaranteed lower required rate of return for the bought-out company
E. guaranteed larger rate of return for the bought-out company

24. The appropriate mix of debt and equity reduces the overall cost of capital and therefore _____.
A. raises the book value of the firm
B. raises the market value of the firm
C. lowers the market value of the firm
D. lowers the book value of the firm
E. raises the market and book value of the firm

25. Factors affecting international acquisitions exclude _____.
A. smaller taxes
B. greater taxes
C. higher earnings after taxes
D. lower capitalization rate
E. higher earnings before taxes

26. The market-based system of corporate governance is primarily used in ___.
A. South Africa
B. the United States
C. Japan
D. Mexico
E. China

27. The bank-based system of corporate governance is primarily used in ___.
A. Japan
B. the United States
C. the United Kingdom
D. Canada
E. North America

28. Two major reasons for the continuous growth of foreign direct investment in developing countries are ___.
A. high wages and highly skilled workers
B. various incentive programs and high wages
C. market-based capitalism and low wages
D. productivity and tax concessions
E. various incentive programs and emerging market-based capitalism

CH 17

1. In a foreign investment analysis, the most important variable a company must forecast is.
A. net cash flow
B. net earnings  
C. market price of the company stock  
D. book value of the company stock  
E. labor cost

2. Which of the following is not directly related to the cash flow analysis of a foreign investment project?  
   A. foreign royalty payments  
   B. foreign taxes  
   C. foreign exchange rate changes  
   D. management changes  
   E. demand forecast

3. In a foreign investment analysis, which of the following objectives is most important and relevant?  
   A. to maximize the project cash flows  
   B. to maximize the parent cash flows  
   C. to maximize the project earnings  
   D. to maximize the overall parent earnings  
   E. to maximize the subsidiary cash flows

4. If a foreign project is financed entirely by local financing sources, which of the following is most important and relevant in the project analysis?  
   A. analysis of the overall weighted average cost of capital  
   B. comparison of the internal rate of return with the incremental cost of capital in a foreign subsidiary  
   C. analysis of the stock price  
   D. analysis of the exchange risk  
   E. analysis of the political environment

5. The variables needed to calculate the cost of equity using the dividend valuation model do not include .  
   A. expected dividend payments  
   B. the current market price of stock  
   C. annual dividend growth rate  
   D. earnings growth rate  
   E. A, B, and C

6. In an international capital project analysis, is not a major cause of the systematic risk?  
   A. worldwide recessions  
   B. worldwide wars  
   C. worldwide energy supply  
   D. both A and C  
   E. host-country's exchange controls

7. Which of the following capital budgeting techniques is considered to be superior to other methods?  
   A. the average rate of return  
   B. the payback method  
   C. the net present value method  
   D. the rule-of-thumb methods  
   E. both A and D

8. Many multinational companies use the risk-adjusted discounted rate and increase the discount rate if a country's risk is .
9. In a foreign investment analysis, the certainty-equivalent approach adjusts for risk in the following variable:
   A. the cost of capital
   B. net cash flow
   C. inflation rate
   D. interest rate
   E. unemployment rate

10. The last three phases of a foreign investment analysis are:
    A. implementation, control, and post audit
    B. implementation, control, and the publication of annual financial reports
    C. implementation, post audit, and planning
    D. control, post audit, and planning
    E. control, search for projects, and planning

11. The portfolio theory relies on the following variable(s):
    A. risk
    B. project maturity
    C. project return
    D. both A and C
    E. both B and C

12. When net present value and internal rate of return produce different answers, net present value is better because:
    A. the net present value is easier to compute than the internal rate of return
    B. the primary goal of a firm is to maximize the value of the firm, which coincides with the net present value approach
    C. the internal rate of return assumes a constant reinvestment rate
    D. a single project may have more than one internal rate of return
    E. all of the above

13. A review of the literature on foreign direct investment reveals the following:
    A. multinational firms should value only those cash flows which can be repatriated
    B. multinational firms should use discounted cash flow methods
    C. multinational firms should use their weighted average cost of capital
    D. A and B
    E. A, B, and C

14. Portfolio theory deals with the selection of investment projects that would:
    A. maximize profit
    B. minimize risk
    C. maximize the rate of return for a given level of risk
    D. minimize risk for a given level of return
    E. C and D

Use the following information to answer the next three questions:
A foreign investment project with an initial cost of $15,000 is expected to produce net cash flows of $8,000, $9,000, $10,000, and $11,000 for each of the next four years. The firm's cost of capital is 12 percent, but the international financial manager
perceives the risk of this particular project is much higher than 12 percent. The international financial manager feels that a 20 percent discount rate would be appropriate for the project.

15. What is the payback period of the project?
   A. 1.8 years.
   B. 2.5 years.
   C. 2.7 years.
   D. 3.0 years.
   E. 4.0 years.
   
   Solution: payback period = 1 + (15,000 - 8,000)/9,000 = 1.8 years.

16. What is the net present value of the project at the firm's cost of capital?
   A. about $15,000.
   B. about $13,400.
   C. about $11,500
   D. about $10,400
   E. $12,000.
   
   Solution: NPV = $8,000/(1.12) + $9,000/(1.12)^2 + $10,000/(1.12)^3 + $10,000/(1.12)^4 - $15,000 = $13,433.

17. What is the risk-adjusted net present value of the project?
   A. about $9,000.
   B. about $8,500
   C. about $7,900
   D. about $7,400
   E. $8,000.
   
   Solution: NPV = $8,000/(1.20) + $9,000/(1.20)^2 + $10,000/(1.20)^3 + 10,000/(1.20)^4 - $15,000 = $9,002.

18. A multinational company is considering the establishment of a two-year project in Germany with a $8 million initial investment. The company's cost of capital is 12 percent. The required rate of return on this project is 18 percent. The project with no salvage value after two years is expected to generate net cash flows of DM12 million in year 1 and DM30 million in year 2. Assume no taxes and a stable exchange rate of $0.60 per mark. What is the net present value of the project in dollar terms?
   A. about $30 million
   B. about $12 million
   C. about $11 million
   D. about $10 million
   E. about $8 million
   
   Solution: Year 1: DM12,000,000 x $0.60 = $7,200,000
   Year 2: DM30,000,000 x $0.60 = $18,000,000
   Net present value = $7,200,000/(1.18) + $18,000,000/(1.18)^2 - $8,000,000 = $11,029,015.

19. A foreign project has an initial investment of $1,400. Its net cash flows are expected to be $900, $1,000, and $1,400 for each of the next three years. The certainty equivalent coefficients of the project are 0.75, 0.55, and 0.35 for each of the next three years. With a 6-percent riskless rate of return, determine the certain net present value of the project.
   A. about $140
B. about $450  
C. about $1,500  
D. about $2,500  
E. about $2,400  

Solution: NPV = $900 (0.75)/(1.06) + $1,000(0.55)/(1.06)^2 + $1,400(0.35)/(1.06)^3 - $1,400 = $138.

CH 18

1. The weighted average cost of capital does not deal with the following components:
   A. the cost of equity  
   B. the cost of debt after tax  
   C. the value of the firm's debt  
   D. the cost of inventory  
   E. the value of the firm's equity

2. The cost of equity can be derived from the following model:
   A. an inventory model  
   B. a cash flow model  
   C. the capital asset pricing model  
   D. a debt model  
   E. none of the above

3. The cost of debt should be derived from the following consideration:
   A. debt capacity of a firm  
   B. solvency of a firm  
   C. liquidity of a firm  
   D. after tax interest cost  
   E. none of the above

4. The international cost of capital may be different from the purely domestic cost of capital because of the following reason(s):
   A. inflation tends to be higher in a foreign country  
   B. the foreign subsidiary's cost of capital may be substantially lower than the parent's cost of capital  
   C. the political risk is greater in a foreign country  
   D. A and B  
   E. A, B, and C

5. The weighted average cost of capital consists of the following ___.
   A. the cost of debt and the cost of preferred stock  
   B. the cost of debt, the cost of preferred stock and the cost of equity  
   C. the cost of debt, the cost of preferred stock, and the cost of retained earnings  
   D. the cost of common stock and the cost of retained earnings  
   E. the cost of debt, the cost of preferred stock, and the cost of retained earnings

6. When we calculate the weighted average cost of capital, which of the following methods is superior?
   A. the book value of debt  
   B. the book value of equity  
   C. the market value of debt and equity  
   D. the market value of assets  
   E. none of the above
7. The weighted average cost of capital usually goes down up to a certain point if we add  
   A. more equity  
   B. more debt  
   C. more preferred stock  
   D. none of the above  
   E. all of the above  

8. The company's optimum capital structure is compatible with  
   A. minimizing the company's weighted average cost of capital  
   B. maximizing the value of the company  
   C. maximizing the company's share price  
   D. all of the above  
   E. none of the above  

9. Multinational companies may lower their cost of capital mainly because  
   A. they are smart  
   B. they can obtain additional capital internationally  
   C. they have different national work forces  
   D. they have political clout  
   E. none of the above  

10. The marginal cost of capital means that  
    A. it is inferior  
    B. it is superior  
    C. the company incurs additional cost by raising additional funds  
    D. it is always constant  
    E. none of the above  

11. In foreign investment analysis, the optimum capital budget is obtained at the point where  
    A. the net present value is maximized  
    B. the internal rate of return is maximized  
    C. the internal rate of return crosses the marginal cost of capital  
    D. all of the above  
    E. none of the above  

12. The main reasons why the international cost of capital may be different from the purely domestic cost of capital are due to the following:  
    A. the company's accessibility to international capital markets  
    B. tax advantages in different countries  
    C. exchange rate risk  
    D. A and B  
    E. A, B, and C  

13. Multinational companies may reduce their cost of capital by  
    A. increasing foreign direct investment  
    B. diversifying risk across the national boundaries  
    C. increasing political pressure  
    D. exploiting local labor  
    E. none of the above  

14. The optimum capital budget is defined as the amount of investment that maximizes  
    A. the market share of the company  
    B. the value of the company  
    C. the net cash flow of the company
15. The cost of capital in Japan has been historically lower than that in the United States chiefly because .
   A. Japan has higher price-earnings ratios
   B. Japan has higher savings
   C. Japan has larger trade surpluses
   D. the Bank of Japan offers favorable rates to major Japanese firms through their commercial banks
   E. all of the above

16. The capital-cost gap across major industrial countries had ___ in the early 1990s.
   A. declined
   B. increased
   C. not changed
   D. been eliminated
   E. all of the above

17. The price-earnings ratios in Japan had been in general than those in the United States.
   A. higher
   B. lower
   C. equal to
   D. two times higher
   E. two times lower

18. The capital-cost gap across countries may decline in the future because of the following ___.
   A. increasing capital flows across countries
   B. the removal of capital controls around the world
   C. advances in information and communications
   D. a growing integration of domestic and offshore markets
   E. all of the above

19. The risk may vary widely among countries because of differences in .
   A. economic conditions
   B. business practices between companies and creditors
   C. government policies
   D. degree of financial leverage
   E. all of the above

20. Germany and Japan had ___ debt ratios than the United States and the United Kingdom from 1977 to 1993.
   A. lower
   B. higher
   C. neither higher nor lower
   D. can not tell
   E. none of the above

21. The common stock of Global Corp. is selling at $54 per share. It expects to pay a dividend of $4 per share and the dividend will grow at a rate of 9 percent per year. What is the cost of the common stock?
   A. 13.7%.
   B. 14.9%.
22. Global Corp. has bonds outstanding. The bond's yield to maturity (before-tax cost of the bond) is 12.4 percent and the firm's tax rate is 40 percent. What is the after-tax cost of the bond?
   A. 12.4%.
   B. 10.9%.
   C. 7.4%.
   D. 6.2%.
   E. 4.1%

23. Global Corp. has debt with a market value of $80,000 and common equity with a market value of $120,000. The component costs of the capital structure for Global Corp. are 7.4 percent for bond and 16.4 percent for common equity. What is the weighted average cost of capital for Global Corp.?
   A. 7.4%.
   B. 12.8%.
   C. 16.4%.
   D. 19.6%.
   E. 21.5%

24. The riskless rate of interest is 6 percent, the expected rate of return on a market portfolio is 8 percent, and the beta coefficient of a common stock is 1.2. What is the cost of this common stock?
   A. 5.0%
   B. 6.3%
   C. 7.3%
   D. 7.9%
   E. 8.4%

25. A U.S. company borrows Mexican pesos for one year at 30 percent. During the year, the peso depreciates 15 percent against the dollar. The U.S. tax rate is 35 percent. What is the after-tax cost of this debt in U.S. dollar terms?
   A. 5.66%
   B. 6.00%
   C. 6.80%
   D. 6.83%
   E. 7.00%

26. The price-earnings ratio of a company is 25. What is the cost of the common stock for this company?
   A. 25%
   B. 20%
   C. 10%
   D. 5%
   E. 4%

27. A firm just paid a dividend of $1.2. Based on your assessment of the riskiness of the common stock, you feel it should pay a return of 20 percent. If the firm's dividends are expected to have a long-term growth rate of 4 percent, what is the market value of the stock?
   A. $7.50
28. A firm's next year earnings are expected to be $4.00 per share, and the firm follows a practice of paying out 60 percent of earnings as dividends. The long-term growth rate for this firm is 5 percent and the appropriate discount rate is 12 percent. What is the price of this stock?
   A. $10.25
   B. $20.45
   C. $30.00
   D. $34.29
   E. $30.25

CH 19

1. Which of the following is not a major political risk listed in a study by Goddard?
   A. expropriation
   B. restrictions on remittances of dividends
   C. tax law changes
   D. exchange controls
   E. high inflation rates

2. Which of the following is not a major reason for the nationalization of both foreign and domestic companies by many governments?
   A. the government believes that it could run the business more efficiently
   B. the government believes that companies are concealing their profits
   C. politicians wish to win popular support as they save jobs by nationalizing
   D. the government wants to operate business firms
   E. the government can control a company or industry

3. The operational restrictions associated with political risk do not include the following measure.
   A. employee policies
   B. shared ownership
   C. loss of transfer freedom
   D. confiscation of business assets
   E. breaches in agreements

4. According to a study by Kennedy, the largest number of expropriations took place between.
   A. 1970 and 1979
   B. 1980 and 1989
   C. 1960 and 1969
   D. 1950 and 1959
   E. 1990 and 1999

5. Which of the following is not a main step needed to forecast the political risk of a foreign country?
   A. a foreign government's attitude toward foreign investment
   B. political stability of a country
   C. integrating political risk into strategic planning
   D. predicting political elections
   E. developing strategies to reduce the company's exposure to political risks
6. The Delphi technique of political risk analysis involves .
   A. compiling the opinions of independent experts
   B. using an outside consultant
   C. executive visits to a country
   D. all of the above
   E. both B and C

7. Defensive measures before investment to avoid political risk of a foreign project include.
   A. planned divestment
   B. joint venture with local partner
   C. adapting to host-country goals
   D. concession agreements
   E. all of the above

8. A significant upsurge in expropriation will not return in the future because ___.
   A. the International demonstration effect discourages expropriation
   B. the economic consequences of mass expropriation have been negative
   C. the loss of sovereignty over some sectors may be politically accepted
   D. Foreign aids from socialist countries have almost disappeared
   E. all of the above

9. The Foreign Exchange Regulation Act of India limits the percentage ownership of foreign investors to %.
   A. 25
   B. 30
   C. 40
   D. 49
   E. 51

10. To become a good citizen of a host country, the multinational company should take the following actions except ___.
    A. use a large amount of locally-supplied raw materials
    B. hire local people for managerial positions
    C. maintain a competitive edge
    D. deflate the subsidiary's profits
    E. make the equity of the subsidiary available to local investors

11. Which of the following is not a suggested action which a multinational company can undertake to prevent possible expropriation of its assets by the host country?
    A. maintain control of key patents
    B. control of key export markets for the subsidiary's products
    C. joint venture arrangements
    D. capitalization with thin equity base
    E. capitalization with heavy equity base

12. Responses to forced equity dilution do not include the following action:
    A. legal action
    B. negotiation
    C. strict compliance
    D. departure
    E. preemptive action

13. A U.S. oil company can manage its political risk in OPEC countries by the following actions except .
    A. taking out political risk insurance
    B. obtaining government guarantee
C. selling oil in advance
D. A, B and C
E. reading host-country newspapers

14. Countrywide political risks depend on the following three broad groups of variables:
   A. political climate, economic climate, and foreign relations
   B. political climate, economic climate, and tax laws
   C. economic climate, foreign relations, and inflation rates
   D. foreign relations, tax laws, and inflation rates
   E. money supply, the balance of payments, and inflation rate

15. A multinational company can integrate the political risk assessment into the company's strategic planning by the following actions except:
   A. establishing cutoff points for foreign projects under different conditions of political risk
   B. allocating funds for a divisible project among countries with different levels of political risk
   C. diversifying investment into projects with varying degrees of risk
   D. hiring consultants from industrial countries
   E. both A and B

16. Some popular techniques of political-risk assessment include the following:
   A. the delphi technique
   B. the grand tour
   C. old hand
   D. quantitative analysis
   E. all of the above

17. The number of expropriations undertaken by foreign governments has since 1979:
   A. increased slightly
   B. increased substantially
   C. decreased slightly
   D. decreased substantially
   E. stayed the same

18. The key in forecasting political interference is to identify:
   A. whether or not a multinational can hire non-union workers
   B. the commitment of the work force to abstain from forming unions
   C. favorable or unfavorable trends affecting the climate in which the subsidiary will operate
   D. the level of Union development in the host country
   E. the level of political and economic pride in the host country

19. A Conference Board study of investors from the major exporting countries found that sited political obstacle.
   A. human rights was the most
   B. economic stability was the least
   C. political stability was the most frequently
   D. human rights was the least
   E. economic and political stability were the most frequently

20. The grand tour relies on the visiting the countries where investment is considered.
   A. opinions of company executives
   B. gut feeling of independent advisors
   C. opinions of bankers
   D. opinions of government officials
E. none of the above