WEEK 4: MIDTERM

Started: Sep 23 at 12:35pm

Quiz Instructions

Here is some information about Midterm.

- For your Midterm, you have 2 continuous hours. Please refer to the due dates listed in the Syllabus for the opening and closing dates of the Midterm. The Midterm is open book, open notes , but in the exam environment, the Windows clipboard and printing functions are disabled. You will not be able to copy exam questions or answers to or from other applications.
- You will find 10 multiple choice and five essay questions on the exam. The multiple choice questions are worth 5 points each, totaling 50 points. The essay questions are worth 20 points each, totaling 100 points. Most of the essay questions are broken down into two 10-point subsections. The Midterm has a total of 150 points, and this represents 15% of the 1,000 maximum course points that can be earned in this course. All questions are randomly selected from an exam pool. Each question is identified with its respective CO. This Midterm covers Weeks 1–3, Chapters 1–8, and the COs covered in these first 3 weeks; it does not cover Week 4 material.
- Because efficient time management is critical to performing well on this exam, it is suggested that you complete the multiple choice questions first. Skip the questions about which you are unsure. The same caveat applies to the essays. Then, return to the multiple choice questions and essays you have yet to answer. Do not spend too much time on any one question or problem.
- The best approach for thorough exam preparation is to achieve mastery of the course material (readings, lessons, lesson supplements, and question and problem sets) prior to taking the exam. Accordingly, you can resolve any lingering questions you may have by using the Q & A Forum in the Introduction and Resources module to ask appropriate questions of your instructor.
- Only your instructor can grant you additional time to complete the exam. Be sure to contact your instructor if you are kicked out of the exam before the 2-hour time period is completed.
- When the time limit is reached, you will be exited from the exam.

Good luck!

By submitting this work, I am attesting that it abides by the **[Student Honor Code](https://devryu.instructure.com/courses/899/pages/student-honor-code)** **(https://devryu.instructure.com/courses/899/pages/student-honor-code)** .

Question 1 — **5 pts**

(TCO A) Which is an example of direct foreign investment?

lishing licensing arrangements in a country Purchasing existing companies in a country Buying foreign companies' stocks
ting to a country

Question 2 — **5 pts**

(TCO A) Which would likely have the least direct influence on a country's current account?

Inflation Exchange rates Tariffs
A tax on income earned from foreign stocks

Question 3

5 pts

- ○
- ○
- ◉
- ○

Question 4

5 pts

(TCO F) As a result of the Smithsonian Agreement, the U.S. dollar was

- ○ the currency to be used by all countries as a medium of exchange for
- ◉ international trade. devalued relative to major currencies.
- ○ forced to be freely floating relative to all currencies without any boundaries.
- ○ revalued (upward) relative to major currencies.

Question 5

5 pts

(TCO C) A large increase in the income level in Mexico along with no growth in the U.S. income level is normally expected to cause (assuming no change in interest rates or other factors) a(n)______in Mexican demand for U.S. goods, and the Mexican peso should_______.

- ○ incr
- ◉ eas
- ○ e;
- ○ app

Question 6

5 pts

- ○
- ○
- ○

appreciated; 1.25%

$6,875,000

$7,250,000

$7,000,000

$6,500,000

Question 8

5 pts

(TCO D) AG Inc., based in Washington, exports products to an Italian firm and will receive payment of €100,000 in 3 months. On June 1, the spot rate of the euro was $1.40, and the 3-month forward rate was $1.42. On June 1, AG negotiated a forward contract with a bank to sell €100,000 forward in 3 months. The spot rate of the euro on September 1 is $1.45. AG will receive $_____for the euros.

$140,000

$142,000

$100,000

$145,000

Question 9

5 pts

(TCO B) Assume the following information.

- 1-year deposit rate offered by U.S. banks = 12%.
- 1-year deposit rate offered on Swiss francs = 10%.
- 1-year forward rate of Swiss francs = $0.62.
- Spot rate of Swiss franc = $0.60.
- From the perspective of U.S. investors with $1,000,000, covered interest arbitrage would yield a rate of return of______%.

14.78

12.72

13.70

11.27

Question 10

5 pts

Question

20 pts

(TCO A) Answer the following questions regarding U.S. international trade.

a. What would be the underlying reason for the strong demand for U.S. exports? (10 points)

b. How may the existence of the euro affect U.S. international trade? (10 points)

HTML Editor

B S A A ‰ ½ ¾ 12pt Paragraph

The underlying reason for a strong demand for U.S. exports is normally associated with strong foreign economies or to a weak dollar.

The existence of the euro may affect U.S. international trade because the single currency among many European countries could encourage firms in those countries to trade among each instead of the U.S. because of the lack of an exchange rate risk within the EU. By keeping the trading within the EU you see an elimination of the need to exchange currencies when trading.

Question 12

20 pts

ing terrorist attacks in the United States on September 11, 2001, the valuations of many MNCs declined by more than 10%. Explain why the expected cash flows of the MNCs were reduced, even if they were not directly hit by the terr

B

Paragraph

The expected cash flows of many MNC's following the terrorist attacks on the U.S. in September of 2011 decreased because of a combination of different impacts, even if the MNC was not directly impacted by the attacks.

A decline in travel affected any MNC that had business in a travel related industry, like airlines and hotels because they would expect to see a decline in business.

A decline in the travel business will affect other industries that are related with travel or tourist related activities.

As a result of tighter restrictions on some products and we saw the cost of international trade increase as it became more expensive to transport goods.

Security was on everyone's minds after September 11th and this caused an increase in security controls as the companies and countries incurred expenses to keep their employees or citizens safe.

1

p

Paragraph

Assuming zero transaction costs, speculators could capitalize on this situation by purchasing peso futures for $0.09 per unit and at the same time selling pesos forward at $0.092 per unit. When the futures are received on the settlement date, the speculators would then sell their pesos to fulfill the forward contract that they are obligated to. The would result in a profit of $0.002 per unit for the speculator.
The activity of the speculators conducting such transactions to capitalize on a situation would place upward pressure on future prices and downward pressure on forward prices. This would bring the difference in the forward price and the futures price into an equilibrium that would see either the reduction or elimination of the gap between the two prices.

p

(TCO C) Answer the following questions regarding the effects of indirect intervention.

Suppose that the government of Chile reduces one if its key interest rates. The values of several other Latin American currencies are expected to change substantially against the Chilean peso in response to the news.

a. Why could other Latin American currencies be affected by a cut in Chile's interest rates? (10 points)

b. How would the central banks of other Latin American countries likely adjust their interest rates? How would the currencies of these countries respond to the central bank intervention? (10 points)

HTML Editor

B S ! AA‰ ½ ¾ "#" " 12pt Paragraph

If Chile reduces one of its key interest rates, other Latin American countries would be affected, because exchange rates are partially driven by the relative interest rates of countries that they trade with. As Chile's interest rate declines, we would see fewer funds that can be exchanged for the currency in Chile because the interest rate has become less attractive to investors. This could result in one of two outcomes for other Latin American countries. We could see a shift in investment from Chile to the other Latin American countries how have not reduced its interest rates. Or, we would see a reduction of capital inflows if the other Latin American countries also reduced their interest rates.

The central banks in other Latin American countries would most likely lower their interest rates to stimulate the economy. Lowering interest rates will cause a currency to weaken, and a weaker currency along with lower interest rates can help an economy.

p

Question 15

20 pts

(TCO B) Answer the following questions regarding covered interest arbitrage in both directions.

Assume that the existing U.S. 1-year interest rate is 10% and the Canadian 1-year interest rate is 11%. Also assume that interest rate parity exists.

a. Should the forward rate of the Canadian dollar exhibit a discount or a premium? (10 points)

b. If a U.S. investor attempts CIA, what will be his or her return? If a Canadian investor attempts CIA, what will be his or her return? (10 points)

HTML Editor

B S ! A A ‰ ½ ¾ " # " " 12pt Paragraph

The forward rate of the Canadian dollar should exhibit a discount. The reason for the discount will be because the Canadian interest rate would surpass the U.S. interest rate.

If a U.S. investor attempted covered interest arbitrage, they would see a return of 10%. This would be the same return they would receive in the U.S. if a Canadian investor attempted covered interest arbitrage, they would see a return of 11%. This would be the same return they would receive in the Canada.

p

Quiz saved at 12:06pm

Submit Quiz