Høgskolen i Telemark
Fakultet for allmennvitenskapelige fag

EXAM

6028
International Finance

5.12.2012

Time:	4 hours
Language:	English
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Aides allowed:	Calculator

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University College of Telemark

International Finance Exam

December 2012

Choose four of the five questions, all questions give 25 marks in total.

QUESTION 1

a) Euro is quoted in Oslo to 7.3012 and 7.3093. What are the buy and sell quotes for NOK in Frankfurt if there is no possibility for arbitrage? (9 marks)

b) USD is quoted in Oslo to 5.70. At the same time USD in Switzerland is quoted to 1.07. What will the rate for the Swiss Franc be in Oslo if there are no arbitrage opportunities? (Remember that Oslo quotes the value of 100 CHF) (8 marks)

c) If you in September sell a USD put option on Euro with a strike price of 0,87 Euro/$ and expiry date in December. What are you selling? (8 marks)

QUESTION 2

Bø AS from Norway has signed a contract with a Dutch firm to buy a new machine. The machine will be delivered after one year and the agreed price to be paid in a years time is €7 000 000. Today's exchange rate is 7.3. In the forward market one can buy Euro in a years time at the rate 7.5.

a) Design a forward market hedge for Bø AS and calculate the effects if the spot rate in twelve months time is 7.10, 7.35 or 7.80. (9 marks)

b) Design and outline a money market hedge for Bø AS given one year money market rates in Norway of 5.5% and 4.2% in the Netherlands. (7 marks)

c) Discuss other possible hedging methods for Bø AS than using forwards or a money market hedge. (9 marks)

QUESTION 3

Do investors benefit from international diversification? Discuss the empirical evidence with regard to the following issues:

a) Who gains most in Cross Border acquisitions? (12 marks)

b) How many securities are needed for international diversification? Compare Solnik (1974) with more recent evidence. (13 marks)

QUESTION 4

a) Suppose that \$1 is quoted at £0.5138-83 in London and £1 is quoted at \$1.9128-72 in New York. Define what arbitrage profits are and calculate whether a profitable arbitrage situation exists for the data given. (10 Marks)

b) Explain the Interest Rate Parity Theory (IRP) theorem and discuss whether the evidence supports the validity of this theory in practice. (11 marks)

c) Suppose Euro interest rates are lower than Norwegian interest rates and that Interest Rate Parity theory holds for NOK/EURO. What does this mean for the relationship between the forward and spot rates for NOK/EURO? (4 marks)

QUESTION 5

International firms will face different types of exchange rate risk, including translation exposure, transaction exposure, and operating exposure.

a) Explain the differences between translation, transaction, and operating exposure and discuss how translation and transaction exposures can be managed. (12 marks)

b) Discuss the extent to which companies ought to manage economic (or operating) exposure, and evaluate the strategies available for managing economic exposure. (13 marks)