Please answer all 20 multiple choice questions (each carries two points)

1. Transaction exposure reflects:
   A) the exposure of a firm’s ongoing international transactions to exchange rate fluctuations.*
   B) the exposure of a firm’s local currency value to transactions between foreign exchange traders.
   C) the exposure of a firm’s financial statements to exchange rate fluctuations.
   D) the exposure of a firm’s cash flows to exchange rate fluctuations.

2. Economic exposure can affect:
   A) MNCs only.
   B) purely domestic firms only.
   C) A and B.*
   D) none of the above.

3. When the dollar strengthens, the reported consolidated earnings of U.S.-based MNCs are ______ affected by translation exposure. When the dollar weakens, the reported consolidated earning are ______ affected.
   A) favorably; favorably affected but by a smaller degree
   B) favorably; favorably affected by a higher degree
   C) unfavorably; favorably affected*
   D) favorably; unfavorably affected

4. Subsidiary A of Mega Corporation has net inflows in Australian dollars of A$1,000,000, while Subsidiary B has net outflows in Australian dollars of A$1,500,000. The expected exchange rate of the Australian dollar is $.55. What is the net inflow or outflow as measured in U.S. dollars?
   A) $500,000 outflow
   B) $500,00 inflow
   C) $275,000 inflow
   D) $275,000 outflow*

5. An example of cross-hedging is:
   A) find two currencies that are highly positively correlated; match the payables of the one currency to the receivables of the other currency.*
   B) use the forward market to sell forward whatever currencies you will receive.
C) use the forward market to buy forward whatever currencies you will receive.
D) B and C.

6. Which of the following reflects a hedge of net receivables in British pounds by a U.S. firm?
   A) purchase a currency put option in British pounds.
   B) sell pounds forward.
   C) borrow U.S. dollars, convert them to pounds, and invest them in a British pound deposit.
   D) A and B.*

7. Foghat Co. has 1,000,000 euros as receivables due in 30 days, and is certain that the euro will depreciate substantially over time. Assuming that the firm is correct, the ideal strategy is to:
   A) sell euros forward.*
   B) purchase euro currency put options.
   C) purchase euro currency call options.
   D) purchase euros forward.
   E) remain unhedged.

8. A ______ involves an exchange of currencies between two parties, with a promise to re-exchange currencies at a specified exchange rate and future date.
   A) long-term forward contract
   B) currency swap
   C) parallel loan*
   D) money market hedge

9. When a perfect hedge is not available to eliminate transaction exposure, the firm may consider methods to at least reduce exposure, such as ______.
   A) leading
   B) lagging
   C) cross-hedging
   D) currency diversification
   E) all of the above*

10. Springfield, Co., based in the U.S., has a cost of goods sold attributable to foreign material orders that exceeds its foreign revenue. All foreign transactions are denominated in the foreign currency of concern. This firm would ______ a stronger dollar and would ______ a weaker dollar.
    A) benefit from; be unaffected by
    B) benefit from; be adversely affected by*
    C) be unaffected by; be adversely affected by
    D) be unaffected by; benefit from
    E) benefit from; benefit from

11. Any restructuring of operations that ______ the difference between a foreign currency’s inflows and outflows may ______ economic exposure.
    A) reduces; increase
    B) increases; reduce
    C) reduces; reduce*
    D) A and B
12. According to the text, Honda was able to reduce its economic exposure by:
   A) closing down most of its plants in the U.S.
   B) producing more automobiles in the U.S.*
   C) relying completely on Japanese supplies for its parts.
   D) none of the above

13. Which of the following is a reason to consider foreign direct investment?
   A) economies of scale.
   B) exploit monopolistic advantages.
   C) diversification.
   D) all of the above.*

14. Consider an exporter that sells its accounts receivables off to another firm that becomes responsible for obtaining cash from various importers. This reflects:
   A) accounts receivable financing.
   B) consignment.
   C) Factoring*
   D) letter of credit.

15. Which of the following payment terms provides the supplier with the greatest degree of protection?
   A) letters of credit
   B) consignment
   C) prepayment*
   D) drafts (sight/time)

16. With _______, the exporter ships the goods to the importer while still retaining actual title to the merchandise.
   A) a letter of credit arrangement
   B) an open account arrangement
   C) a draft arrangement
   D) a consignment arrangement*

17. A bill of exchange requesting the bank to pay the face amount upon presentation of documents is:
   A) a banker’s acceptance.
   B) a time draft.
   C) a letter of credit.
   D) a sight draft.*

18. Countertrade represents foreign trade:
   A) restrictions imposed by the government on imports from another country.
   B) restrictions imposed by the government on exports sent from the country.
   C) transactions that force the sales of goods of one country to be linked to the purchase or exchange of goods from the country.*
   D) financing provided to an exporter in exchange for goods provided to the creditor by the exporter.
19. Which of the following statements is not true about bank concentration in Europe (Mr. Francois Malnati’s presentation)?
   A) Most mergers and acquisitions in the banking sector have so far been domestic
   B) European banks currently have an accumulated war chest of 50-80 billion euros to make further acquisitions
   C) Individual nations protect their banking systems
   D) Cross frontier (border) bank mergers are easy to execute and be successful.*

20. Which of the following statements about LDC debt crises is not true?
   A) Stagflation in industrial countries led to weak commodity prices and worsening current account deficits resulting in increased borrowings by LDCs.
   B) LDCs that borrowed heavily from international commercial banks piled up debt, which made debt service unbearable.
   C) Countries that depended heavily on IMF/World Bank funds performed as badly as those that depended essentially on commercial bank loans.*
   D) The inability to service external (foreign exchange) debt and the lack of international reserves led to currency crisis (steep fall in the value of LDC currency values).