Please answer all 40 multiple choice questions (each carries one-half point)

1. The commonly accepted goal of MNCs is to
   a) maximize short-term earnings
   b) maximize shareholder wealth
   c) minimize risk
   d) A and C
   e) Maximize international sales

2. Which of the following theories suggests that firms seek to penetrate new markets over time?
   a) theory of comparative advantage
   b) imperfect markets theory
   c) product life cycle theory
   d) none of the above

3. The Single European Act of 1987 was primarily intended to
   a) create more trade barriers between European countries
   b) unify East Germany with West Germany
   c) provide financial support for Eastern Europe
   d) make regulations more uniform across industrialized countries in Europe

4. In comparing exports to direct foreign investment (DFI), an exporting operation will likely incur ________ fixed production costs and ________ transportation costs than DFI.
   a) higher; higher
   b) higher; lower
   c) lower; lower
   d) lower; higher

5. Which of the following is an example of direct foreign investment?
   a) exporting to a country
   b) establishing licensing arrangements in a country
   c) purchasing existing companies in a country
   d) investing directly (without brokers) in foreign stocks
6. Licensing obligates a firm to provide __________, while franchising obligates a firm to provide ____________.
   a) a specialized sales or service strategy; its technology
   b) its technology; a specialized sales or service strategy
   c) its technology; its technology
   d) a specialized sales or service strategy; a specialized sales or service strategy
   e) its technology; an initial investment

7. ___________ purchases more U.S. exports than any other country.
   a) Japan
   b) United Kingdom
   c) Mexico
   d) Canada

8. An increase in the current account deficit will place __________ pressure on the home currency value, other things being equal.
   a) upward
   b) downward
   c) no
   d) upward or downward (depending on the size of the deficit)

9. The International Development Association (IDA) was established to
   a) enhance development solely in Asia through grants
   b) enhance economic development through non-subsidized (at market interest rates) loans
   c) enhance economic development through low-interest (below market) rate loans
   d) enhance economic development of the private sector through investment in stock of corporations

10. The “J curve” effect describes
    a) the continuous long-term inverse relationship between a country’s current account balance and the country’s GNP growth
    b) the short-run tendency for a country’s balance of trade to deteriorate even while its currency is depreciating
    c) the tendency for exporters to initially reduce the price of goods when their own currency appreciates
    d) the reaction of a country’s currency to initially depreciate after the country’s inflation rate declines.

11. The North American Free Trade Agreement (NAFTA) increased restrictions on
    a) trade between Canada and Mexico
    b) trade between Canada and the U.S.
    c) direct foreign investment in Mexico by U.S. firms
    d) none of the above.
12. The General Agreement on Tariffs and Trade (GATT) accord in 1993 called for
   a) increased trade restrictions outside of North America
   b) lower trade restrictions around the world
   c) uniform environmental standards around the world
   d) uniform worker health laws.

13. Assume that a bank’s bid rate on Swiss francs is $0.45 and its ask rate is $0.47. Its bid-ask percentage spread is
   a) about 4.44% 
   b) about 4.26%
   c) about 4.03%
   d) about 4.17%

\[
\frac{Ask - Bid}{Ask} \times 100 = \frac{0.47 - 0.45}{0.47} \times 100
\]

14. If a U.S. firm desires to avoid the risk from exchange rate fluctuations, and it is receiving 100,000 euros in 90 days, it could:
   a) obtain a 90-day forward purchase contract on euros
   b) obtain a 90-day sale contract on euros
   c) purchase euros 90 days from now at the spot rate
   d) sell euros 90 days from now at the spot rate.

15. Assume the Canadian dollar is equal to $0.88 and the Peruvian “sol” is equal to $0.35. The value of the Peruvian sol in Canadian dollars is
   a) about .3621 Canadian dollars
   b) about .3977 Canadian dollars
   c) about 2.36 Canadian dollars
   d) about 2.51 Canadian dollars

\[
\frac{Sol}{CAD} = \frac{0.35}{0.88} = 0.3977
\]

16. The Eurocurrency market is primarily served by:
   a) the governments of European countries, which directly intervene in the foreign exchange market
   b) government agencies such as the IMF that enhance development of countries
   c) several large banks that accept deposits and provide loans in various countries
   d) small banks that convert foreign currency for tourist and business visitors

17. From 1944-1971, the exchange rate between two countries was typically:
   a) fixed within narrow boundaries
   b) floating, but subject to central bank intervention
   c) floating, and not subject to central bank intervention
   d) nonexistent: that is currencies were not exchanged, but gold was used to pay for all foreign transactions

18. Futures contracts are typically ________; forward contracts are typically ______.
   a) sold on an exchange; sold on an exchange
   b) offered by commercial banks; sold on an exchange
• c) sold on an exchange; offered by commercial banks  
  d) offered by commercial banks; offered by commercial banks

19. Which is the currency that is used the most in Eurobanks?  
   a) the British pound  
   b) the Japanese yen  
   c) the U.S. dollar  
   d) the Swiss franc

20. 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 ________.  
   a) increase; appreciate  
   b) increase; depreciate  
   c) decrease; depreciate  
   d) decrease; appreciate

21. Assume that the inflation rate becomes much higher in the U.K. relative to the U.S. This will place ________ pressure on the value of the British pound. Also, assume that interest rates in the U.K. begin to rise relative to interest rates in the U.S. The change in interest rates will place ________ pressure on the value of the British pound.  
   a) upward; downward  
   b) upward; upward  
   c) downward; upward  
   d) downward; downward

22. Assume that the U.S. places a strict quota on goods imported from Chile and that Chile does not retaliate. Holding other factors constant, this event should immediately cause the U.S. demand for Chilean pesos to ________ and the value of the peso to _________.  
   a) increase; increase  
   b) increase; decline  
   c) decline; decline  
   d) decline; increase

23. Which of the following is not mentioned in the text as a factor affecting exchange rates?  
   a) relative interest rates  
   b) relative inflation rates  
   c) government controls  
   d) expectations  
   e) all of the above are mentioned in the text as factors affecting exchange rates.
24. Currency futures contracts sold on an exchange
   a) contain a commitment to the owner, and are standardized
   b) contain a commitment to the owner, and can be tailored to the desire of the owner
   c) contain a right but not a commitment to the owner, and can be tailored to the desire of the owner
   d) contain a right but not a commitment to the owner, and are standardized.

25. Currency options sold through an options exchange:
   a) contain a commitment to the owner, and are standardized
   b) contain a commitment to the owner, and can be tailored to the desire of the owner
   c) contain a right but not a commitment to the owner, and can be tailored to the desire of the owner
   d) contain a right but not a commitment to the owner, and are standardized.

26. Forward contracts:
   a) contain a commitment to the owner, and are standardized
   b) contain a commitment to the owner, and can be tailored to the desire of the owner
   c) contain a right but not a commitment to the owner, and can be tailored to the desire of the owner
   d) contain a right but not a commitment to the owner, and are standardized.

27. Which of the following is the most likely strategy for a U.S. firm that will be receiving Swiss francs in the future and desires to avoid exchange rate risk (assume the firm has no offsetting position in francs)?
   a) purchase a call option in francs
   b) sell a futures contract on francs
   c) obtain a forward contract to purchase francs forward
   d) all of the above are appropriate strategies for the scenario described

28. When you own ___________, there is no obligation on your part; however, when you own ____________, there is an obligation on your part.
   a) call options; put options
   b) futures contracts; call options
   c) forward contracts; futures contracts
   d) put options; forward contracts

29. The greater the variability of a currency, the ______ will be the premium of a call option on this currency, and the ______ will be the premium of a put option on this currency, other things equal.
   a) greater; lower
   b) greater; greater
   c) lower; greater
   d) lower; lower
30. A firm wants to use an option to hedge 12.5 million New Zealand dollars in receivables from New Zealand firms. The premium is US$0.03. The exercise price is US$0.55/NZ$. If the option is exercised, what is the total amount of US dollars received (after accounting for the premium paid)?
   a) $6,875,000
   b) $7,250,000
   c) $7,000,000
   d) $6,500,000
   e) none of the above

\[
12.5 \times 0.55 = 6,875,000 \\
(12.5 \times 0.03) = 375,000 \\
\frac{6,875,000 - 375,000}{6,500,000} = 0.05
\]

31. The existing spot rate of the Canadian dollar is US$0.82/C$. The premium on a Canadian dollar call option is US$0.04. The exercise price is US$0.81/C$. The option will be exercised on the expiration date if at all. If the spot rate on the expiration date is US$0.87/C$, the profit as a percent of the initial investment (the premium paid) is:
   a) 0 percent
   b) 25 percent
   c) 50 percent
   d) 150 percent
   e) none of the above

\[
\text{Profit} = 0.87 - 0.81 - 0.04 = 0.02 \\
\text{Investment} = \text{Premium} = 0.04 \\
\text{Profit} \% = \frac{0.02}{0.04} \times 100 = 50\% \\
\]

32. You purchase a call option on pounds for a premium of $0.03 per unit, with an exercise price of $1.64; the option will not be exercised until the expiration date, if at all. If the spot rate on the expiration date is $1.65, your net profit per unit is:
   a) -$.03
   b) -$.02
   c) -$.01
   d) $.02
   e) none of the above

\[
\text{Profit} = 1.65 - 1.64 - 0.03 = 0.02 \\
\]

33. Which of the following is not an instrument used by U.S.-based MNCs to cover their foreign currency positions?
   a) forward contracts
   b) futures contracts
   c) non-deliverable forward contracts
   d) options
   e) all of the above are instruments used to cover foreign currency positions

34. A weak dollar is normally expected to cause:
   a) high unemployment and high inflation in the U.S.
   b) high unemployment and low inflation in the U.S.
   c) low unemployment and low inflation in the U.S.
   d) low unemployment and high inflation in the U.S.
35. Under the managed float exchange rate system, the Fed may attempt to stimulate the U.S. economy by ________ the dollar. Such an adjustment in the dollar’s value should ________ the U.S. demand for products produced by major foreign countries.
   a) weakening; increase
   b) weakening; decrease
   c) strengthening; increase
   d) strengthening; decrease

36. Which of the following is an example of direct intervention in foreign exchange markets?
   a) lowering interest rates
   b) increasing the discount rate
   c) exchanging dollars for foreign currency
   d) imposing barriers on international trade

37. In 1992, the Maastricht Treaty called for the goal of a:
   a) single European currency
   b) single European tax authority
   c) single European system for setting exchange rates between European currencies
   d) a Europe that would impose trade restrictions on imports from countries outside of Europe

38. Which of the following is true regarding the euro?
   a) Exchange rate risk between participating European currencies is completely eliminated, encouraging more trade and capital flows across European borders
   b) It allows for more consistent economic conditions across countries
   c) It prevents each country from conducting its own monetary policy
   d) All of the above are true.

39. To strengthen the dollar using sterilized intervention, the Fed would ________ dollars and simultaneously ________ Treasury securities.
   a) buy; sell
   b) sell; buy
   c) buy; buy
   d) sell; sell

40. Which of the following countries was probably the lease affected (directly or indirectly) by the Asian crisis?
   a) Thailand
   b) Indonesia
   c) Russia
   d) China
   e) Malaysia