

Name: _____

23-4

Roll No: _____

Surprise Class Quiz - I
International Finance: BBA – VIII

1. Assume that a bank's bid rate on Swiss francs is \$.45 and its ask rate is \$.47. Its bid-ask percentage spread is:
 - a. about 4.44%.
 - b. about 4.26%.
 - c. about 4.03%.
 - d. about 4.17%.
2. The forward rate is the exchange rate used for immediate exchange of currencies.
 - a. true.
 - b. false.
3. The ask quote is the price for which a bank offers to sell a currency.
 - a. true.
 - b. false.
4. Assume the Canadian dollar is equal to \$.88 and the Peruvian Sol is equal to \$.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.
5. A Japanese yen is worth \$.0080, and a Fijian dollar (F\$) is worth \$.5900. What is the value of the yen in Fijian dollars (i.e., how many Fijian dollars do you need to buy a yen)?
 - a. 73.75.
 - b. 125.
 - c. 1.69.
 - d. 0.014.
 - e. none of the above.
6. A trader quotes you the following rates 1£ = \$1.4758 (today). His quote yesterday was 1£ = \$1.4689. The dollar has _____ since yesterday?
 - a) Appreciated
 - b) Depreciated
 - c) Evaluated
 - d) Devaluated
7. What is the percentage change in the value of the pound given in question no six?
 - a) 0.004697
 - b) 0.00467
 - c) -0.00467
 - d) None of above
8. Consider a Canadian tourist who planned a trip to France when the Euro was 1£ = CDN\$1.56. The trip was expected to cost CDN\$20,000.00 at that exchange rate. Suppose that just before leaving Canada the exchange rate changes to 1£ = CDN\$1.80. What is the expected increase in the cost of this trip to the Canadian traveler assuming that the costs in Euro are unchanged?
 - a) CAD 23076
 - b) CAD 24076
 - c) CAD 22076
 - d) None of above
9. You observe the following quotations
 1. USD/GBP: 1.78
 2. USD/GBP: 1.90

Which of the following statement is correct

 - A) Quotation 1 overprice GBP and overprice USD
 - B) Quotation 2 overprice GBP and overprice USD
 - C) Quotation 1 overprice USD and underprice USD
 - D) Quotation 2 overprice GBP and underprice GBP
 - E) Quotation 1 and 2 overprice USD
10. You observe the following information
GBP spot rate = USD1.70 1-year forward rate = USD1.75
The forward premium/discount of GBP is _____
 - a. 2.94%
 - b. -2.94%
 - c) -0.5%
 - d) -0.5%
 - e) None of the above
11. Assume that there is no transaction cost and you observe the following quotation:
 1. USD/GBP: 1.78
 2. USD/JPY: 0.0080
 3. GBP/JPY: 0.0055

From 1 and 2, what is the cross rate for GBP/JPY

 - A) 0.0045
 - B) 0.0142
 - C) 0.0054
 - D) 0.0152
12. Compare with the cross rate found above, the quotation 3:
 - A) overvalues GBP and undervalue JPY
 - B) overvalues GBP and overvalue JPY
 - C) overvalues JPY and undervalue JPY
 - D) doesn't overvalue or undervalue any currency
13. If you have USD100,000 and you try triangular arbitrage, which is the correct way of trade:
 - A) USD → GBP → JPY
 - B) USD → GBP → JPY → USD
 - C) USD → JPY → USD → GBP → USD
 - D) USD → JPY → GBP → USD
 - E) USD → JPY → GBP → USD

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14. Assume the bid rate of a New Zealand dollar is \$.33 while the ask rate is \$.335 at Bank X. Assume the bid rate of the New Zealand dollar is \$.32 while the ask rate is \$.325 at Bank Y. Given this information, what would be your gain if you use \$1,000,000 and execute locational arbitrage?

A) \$15,385.
B) \$15,625.
C) \$22,136.
D) \$31,250.

15. Due to _____, market forces should realign the cross exchange rate between two foreign currencies based on the spot exchange rates of the two currencies against the U.S. dollar.

A) forward realignment arbitrage
B) triangular arbitrage
C) covered interest arbitrage
D) locational arbitrage

16. Assume Poland's zloty (PLZ) is worth USD .17 and the Japanese yen (JPY) is worth USD .008. What is the cross rate JPY/PLZ?

Solution:

17. Suppose Dow Chemical receives quotes of \$ 0.009369-71 for the yen and \$0.03675-6 for the Taiwan dollar (NT\$).

- a. How many U.S. dollars will Dow Chemical receive from the sale of ¥ 50 million?
Solution:

- b. What is the U.S. dollar cost to Dow Chemical of buying ¥ 1 billion?
Solution:

- c. How many NT\$ will Dow Chemical receive for US \$ 500,000?
Solution:

18. Assume the following Quoted Price by three different forex dealers:

Value of Canadian dollar in U.S. dollars	USD 0.90
Value of New Zealand dollar in U.S. dollars	USD 0.30
Value of Canadian dollar in New Zealand dollars	NZD 3.02

Given this information, is triangular arbitrage possible? If so, explain the steps that would reflect triangular arbitrage, and compute the profit from this strategy if you had USD 1,000,000 to use.

Solution:

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SURPRISE QUIZ I: PORTFOLIO MANAGEMENT (MBA)

1. Given the capital allocation line, an investor's optimal portfolio is the portfolio that
 - A) maximizes her expected utility.
 - B) maximizes her risk.
 - C) minimizes both her risk and return.
 - D) maximizes her expected profit.
 - E) none of the above
2. A reward-to-volatility ratio is useful in
 - A) measuring the standard deviation of returns.
 - B) analyzing returns on variable rate bonds.
 - C) understanding how returns increase relative to risk increases.
 - D) assessing the effects of inflation.
 - E) none of the above
3. The change from a straight to a kinked capital allocation line is a result of
 - A) borrowing rate exceeding lending rate.
 - B) reward-to-volatility ratio increasing.
 - C) an investor's risk tolerance decreasing.
 - D) increase in the portfolio proportion of the risk-free asset.
 - E) none of the above
4. Based on their relative degrees of risk tolerance
 - A) investors will hold varying amounts of the risky asset in their portfolios.
 - B) investors will hold varying amounts of the risk-free asset in their portfolios.
 - C) all investors will have the same portfolio asset allocations.
 - D) A and B.
 - E) A and C.
5. The first major step in asset allocation is
 - A) estimating security betas.
 - B) analyzing financial statements.
 - C) assessing risk tolerance.
 - D) identifying market anomalies.
 - E) none of the above
6. Passive investing
 - A) involves considerable security selection.
 - B) may be accomplished by investing in index mutual funds.
 - C) involves considerable transaction costs.
 - D) A and B.
 - E) none of the above
7. In the mean-standard deviation graph, the line that connects the optimal risky portfolio, P, and the risk free rate is called
 - A) the Security Market Line.
 - B) the Investor's Utility Line.
 - C) the Indifference Curve.
 - D) the Capital Allocation Line.
 - E) none of the above
8. When a portfolio consists of only a risky asset and a risk-free asset, increasing the fraction of the overall portfolio invested in the risky asset will
 - A) increase the expected return on the portfolio.
 - B) increase the standard deviation of the portfolio.
 - C) change the risk-reward ratio.
 - D) neither A, B nor C are true.
 - E) A and B are true.
9. When wealth is shifted from the risky portfolio to the risk-free asset, what happens to the relative proportions of the various risky assets within the risky portfolio?
 - A) They are not changed.
 - B) Some increase and some decrease.

Marks Obtained: _____

- C) They all increase.
- D) They all decrease.

E) The answer depends on the specific circumstances.

10. An investor invests 60 percent of his wealth in a risky asset with an expected rate of return of 0.14 and a variance of 0.32 and 40 percent in a T-bill that pays 3 percent. His portfolio's expected return and standard deviation are _____ and _____, respectively.
- A) 0.096; 0.339
 - B) 0.087; 0.267
 - C) 0.295; 0.123
 - D) 0.087; 0.182

E) none of the above

11. Beta is the measure of

- A) firm specific risk.
- B) diversifiable risk.
- C) unique risk.
- D) market risk.

E) none of the above

12. The risk that can be diversified away is

- A) systematic risk.
- B) beta.
- C) firm specific risk.
- D) market risk.

E) none of the above

13. All things equal, diversification is most effective when

A) securities' returns are positively correlated.

B) securities' returns are uncorrelated.

C) securities' returns are high.

D) securities' returns are negatively correlated.

E) A and C.

14. When an investment opportunity set is formed with two securities that are perfectly negatively correlated, the global minimum variance portfolio has a standard deviation that is always

A) equal to zero.

B) greater than zero.

C) equal to the sum of the securities' standard deviations.

D) equal to -1.

E) none of the above

15. Efficient portfolios of N risky securities are portfolios that

A) are formed with the securities that have the highest rates of return regardless of their standard deviations.

B) have the highest rates of return and the highest standard deviations.

C) are selected from those securities with the lowest standard deviations regardless of their returns.

D) have the highest rates of return for a given level of risk.

E) none of the above

16. An investor who wishes to form a portfolio that lies to the right of the optimal risky portfolio on the Capital Allocation Line must:

A) lend some of her money at the risk-free rate and invest the remainder in the optimal risky portfolio.

B) borrow some money at the risk-free rate and invest in the optimal risky portfolio.

C) such a portfolio cannot be formed.

D) invest only in risky securities

E) B and D

17. Portfolio theory as described by Markowitz is most concerned with

A) the elimination of systematic risk.

B) the identification of unsystematic risk.

C) the effect of diversification on portfolio risk.

D) active portfolio management to enhance returns.

Marks Obtained: _____

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18. A statistic that measures how the returns of two risky assets move together is
- E) none of the above
 - A) correlation.
 - B) standard deviation.
 - C) covariance.
 - D) variance.
 - E) A and C.
19. The individual investor's optimal portfolio is designated by
- A) the point of tangency with the opportunity set and the capital allocation line.
 - B) the point of highest reward to variability ratio in the opportunity set.
 - C) the point of tangency with the indifference curve and the capital allocation line.
 - D) the point of the highest reward to variability ratio in the indifference curve.
 - E) none of the above
20. Security C has expected return of 12% and standard deviation of 20%. Security D has expected return of 15% and standard deviation of 27%. If the two securities have a correlation coefficient of 0.7, what is their covariance?
- A) 0.038
 - B) 0.070
 - C) 0.018
 - D) 0.013
 - E) 0.054
21. According to the Capital Asset Pricing Model (CAPM), a risky asset held as a part of well-diversified portfolio's rate of return is a function of
- A) unique risk.
 - B) reinvestment risk.
 - C) market risk.
 - D) unsystematic risk.
 - E) none of the above
22. Which statement is not true regarding the market portfolio?
- A) It includes all publicly traded financial assets.
 - B) It is the tangency point between the capital market line and the indifference curve.
 - C) All securities in the market portfolio are held in proportion to their market values.
 - D) It lies on the efficient frontier.
 - E) None of the above are true.
23. The market risk, beta, of a security is equal to
- A) the covariance between the security's return and the market return divided by the variance of the market's returns.
 - B) the covariance between the security and market returns divided by the standard deviation of the market's returns.
 - C) the variance of the security's returns divided by the covariance between the security and market returns.
 - D) the variance of the security's returns divided by the variance of the market's returns.
 - E) none of the above.
24. According to the Capital Asset Pricing Model (CAPM), fairly priced securities
- A) have positive betas.
 - B) have positive alphas.
 - C) have negative betas.
 - D) have zero alphas.
 - E) none of the above
25. In a well diversified portfolio
- A) market risk is negligible.
 - B) unsystematic risk is negligible.
 - C) systematic risk is negligible.
 - D) nondiversifiable risk is negligible.
 - E) none of the above
26. What is the expected return of a zero-beta security?
- A) The risk-free rate.
 - B) Zero rate of return.
 - C) A negative rate of return.
 - D) The market rate of return.
 - E) None of the above are true.

Marks Obtained: _____

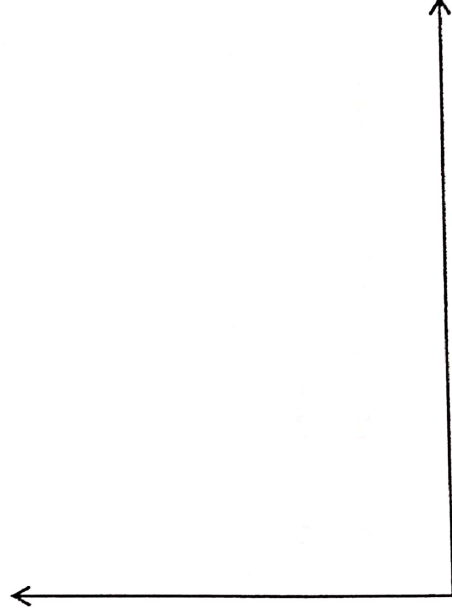
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27. Assume that a security is fairly priced and has an expected rate of return of 0.13. The market expected rate of return is 0.13 and the risk-free rate is 0.04. The beta of the stock is
A) 1.25. B) 1.7. C) 1. D) 0.95. E) none of the above
28. You invest 50% of your money in security A with a beta of 1.6 and the rest of your money in security B with a beta of 0.7. The beta of the resulting portfolio is
A) 1.40. B) 1.15. C) 0.36. D) 1.08. E) 0.80.
29. Find the optimal level of weight in risky asset portfolio and risk free asset given the following information: $E(R_f) = 14\%$, $R_f = 6\%$, $\sigma_f = 20\%$, $A = 4$

Solution:

30. Find the optimal level of investment weights in two risky assets A and B given the following information: $E(R_A) = 12\%$, $E(R_B) = 20\%$, $\sigma_A = 10\%$, $\sigma_B = 17\%$, $A = 4$, Correlation (R_A, R_B) = 0.2
- Solution:

31. Draw the feasible portfolio opportunity set for different risk return combinations of multiple assets:



- Show the portfolio opportunity set and efficient frontier.
- Draw the CAL
- Locate the minimum variance portfolio.
- Locate the optimal portfolios of the above two problems 29 and 30 in the above graph.
- The slope of the above CAL =

Marks Obtained: _____