

International Finance Practice Questions

- 1.** Compare and contrast the shareholder wealth model with the stakeholder capitalism model.
- 2.** Explain the decision process for a firm wishing to expand abroad via foreign direct investment.
- 3.** Describe and explain the four main theoretical approaches to exchange rate determination.
- 4.** Describe and explain how the International Monetary System was significantly defined by the Bretton Woods conference.
- 5.** Contrast the Anglo-American Shareholder Wealth Maximisation Model with the Stakeholder Capital Model favoured in some countries.
- 6.** Contrast the Stakeholder Capital Model favoured in some countries with the Anglo-American Shareholder Wealth Maximisation Model.
- 7.** Describe and explain the range of exchange rate regime classifications between fixed and floating.
- 8.** Explain the asset market approach to exchange rate determination.
- 9.** Compare and contrast Forward Rate Agreements, Interest Rate Futures and Interest Rate Swaps.
- 10.** Compare and contrast the role of the Official Reserves in the Balance of Payments under *i.* fixed exchange rates and *ii.* floating exchange rates.
- 11.** Define each of the following types of foreign exchange transactions: Spot, Outright forward and Forward-forward swap.
- 12.** Define the acronym LIBOR and explain its significance in the Eurocurrency markets.
- 13.** Define the meaning of a surplus in the Balance of Payments.
- 14.** Define the meaning of the term “Counterparty Risk”.
- 15.** Describe and explain the factors that determine the creation of firm value in global markets.
- 16.** Describe and explain the IMF’s exchange rate regime classifications.
- 17.** Describe the attributes of an Ideal Currency and explain why it is not possible to reach this ideal.

- 18.** Describe the primary mechanisms by which capital may be moved from one country to another.
- 19.** Describe the role of the Bretton Woods conference in shaping the International Monetary System.
- 20.** Discuss the motives that drive the decision to invest abroad and become a multi-national enterprise?
- 21.** Discuss the relative performance of family-run and non-family-run businesses.
- 22.** Explain how China can have Twin Surpluses on its Balance of Payments.
- 23.** Explain how you would make a profit from Triangular Arbitrage in the following scenario: Your base currency is USD and your initial capital is USD1,000,000. Bank A offers a GBP/USD exchange rate of 1.62. Bank B offers a GBP/CHF rate of 1.4667. Bank C offers a USD/CHF rate of 0.9045. Assume that all currencies can be traded at mid-quote exchange rates (i.e. bid=offer).
- 24.** Explain the difference between a Non-Deliverable Forward transaction and an Outright Forward transaction.
- 25.** Explain the difference between Absolute Purchasing Power Parity and Relative Purchasing Power Parity.
- 26.** Explain the following: “a forward exchange rate is an unbiased predictor of the future spot exchange rate”.
- 27.** Explain the following terms: SIV, CDO and CDS.
- 28.** Explain the difference between i. the Current Account and ii. the Capital and Financial Account of the Balance of Payments.
- 29.** Explain the difference between Covered Interest Arbitrage and Uncovered Interest Arbitrage.
- 30.** Explain the difference between an Outright Forward transaction and a Non-Deliverable Forward transaction.
- 31.** Explain the IMF’s exchange rate regime classification.
- 32.** Explain the motives for a firm wanting to become a Multi-National Enterprise?
- 33.** Explain what an Ideal Currency is and outline the reasons it is impossible to achieve this ideal.

- 34.** Explain the role of SIVs, CDOs and CDSs in the global financial crisis.
- 35.** Explain the Twin Agency problem of financial globalisation.
- 36.** Explain what is meant by the Law of One Price.
- 37.** Explain what is meant by the term “Eurocurrency”.
- 38.** Explain what is meant by the term “Special Drawing Right”.
- 39.** Explain why the Theory of Comparative Advantage motivates firms to develop overseas operations
- 40.** List and explain strategic motives that drive the decision to invest abroad and become a Multinational Enterprise?
- 41.** What are the three major functions of the foreign exchange market?
- 42.** What differences might a firm expect if when considering to expand from a domestic business to an international business?
- 43.** What does the term LIBOR mean and what is its significance in the Eurocurrency markets?
- 44.** What is the J-Curve and what is its relevance to the Trade Balance?
- 45.** Why does an exchange rate to overshoot and how is this resolved?