

## INTERNATIONAL FINANCE

An introduction to the financial operations of companies that do business in more than one country and whose assets are denominated in more than one currency. (3 s.h.)	FIN-334-TE
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This is a three-hour examination in which you must answer 4 problem-type questions (worth 20 points each), and 20 multiple-choice questions (worth 1 point each). A passing score is 60 out of 100 points.

**Here are the topics covered and their approximate importance on the test:**

- I. THE INTERNATIONAL MONETARY AND ECONOMIC ENVIRONMENT (50%)
  - A. The international monetary system: floating exchange rates to exchange controls
  - B. Balance of payments accounting and analysis
  - C. Foreign exchange markets and risk management
  
- II. INVESTMENT AND FINANCING DECISIONS (45%)
  - A. Long-run investment decisions: motives for direct foreign investment; foreign investment decision-making; capital budgeting
  - B. Financing decisions: international financial markets; the cost of capital; Eurodollars and other Eurocurrencies; the cost of capital and financial structure
  - C. International banking: commercial and country risks
  - D. Import and export financing: e.g., letters of credit; government programs to encourage and finance exports; countertrade
  
- III. PROBLEMS OF INTERNATIONAL FINANCIAL MANAGEMENT (5%)
  - A. Foreign exchange controls
  - B. Taxation
  - C. Legal and political factors
  - D. Risks and insurance
  - E. Working capital management
  - F. The International Bank for Reconstruction and Development (The World Bank); The International Monetary Fund (IMF)

**Textbooks to help you prepare:**

Eiteman, David, Arthur Stonehill and Michael Moffett. *Multinational Business Finance*.  
Current edition. Reading, MA: Addison-Wesley

Madura, Jeff. *International Financial Management*.  
Current edition. Cincinnati, OH: South-Western

Salvatore, Dominick. *International Economics*.  
Current edition. New York: John Wiley

The Salvatore text is a classic and covers this subject very well. However, it teaches international economics and international finance, so only the second half of it is devoted to finance.

## SAMPLE QUESTIONS

### Multiple-Choice

1. In balance of payments accounting, a credit entry for the home country is
  - a. an international transaction in which foreigners make payments to residents of the home country
  - b. one in which residents of the home country make payments for foreigners
  - c. one which results from an import of goods into the home country
  - d. one which results from an outflow of capital from the home country to a foreign country
  
2. If the value of exports for a country is \$35,500,000 and the value of imports is \$35,000,000, the balance of trade can be described as
  - a. in surplus but unfavorable
  - b. showing a gain in real goods but in deficit
  - c. in deficit and favorable
  - d. in surplus, favorable and +\$500,000
  
3. All of the following statements are explanations of the reason for short-term capital transfers from Country X to Country Y EXCEPT
  - a. Political instability in Country X
  - b. Lower interest rates in Country X
  - c. Lower interest rates in Country Y
  - d. Country X has made it known that it is considering devaluation of its currency

### Problem

4. The buying rate for French francs in New York was \$.19 on November 4, according to *The Wall Street Journal*.
  - (a) What would you expect the price of the U.S. dollar in Paris to be at that time?
  - (b) If the actual exchange rate in Paris is F 5.27/\$, what will take place in the market?
  - (c) Also on November 4, the British pound was quoted at \$1.6275/£ in New York. What is the expected price of the pound in Paris on that day?
  - (d) Suppose on November 4, the British pound was actually quoted in Paris at F 8.5000/£, what would you purchase and where?

>> Show all calculations to support your answers. Word answers without calculations are not sufficient. <<

Partial credit will be awarded.

## ANSWERS TO SAMPLE QUESTIONS

1. **a** 2. **d** 3. **c**

4. (a)  $\$/F = \$0.19/1$ ; francs =  $1/0.19 = 5.2632$  f/\$

(b) U.S. dollars will be bought in New York with francs and sold in France for francs, or francs will be bought in France for dollars and sold in New York for dollars.

This will tend to continue until the price of dollars in NY equals the price of dollars in France.

Price of francs in New York: US \$0.19/franc or F 5.2632/\$

Price of francs in Paris: US \$1.00/F 5.27 = US \$0.1898/F or F 5.27/\$

(c)  $F/\pounds = ?$

New York:  $F/\$ = 5.2632$   
 $\$/\pounds = \$1.6275$

Therefore:  $\pounds/\$ = 1/1.6275 = \pounds0.6144/\$$

and:  $\frac{f/\$}{\pounds/\$} = \frac{F}{t} = \frac{5.2632}{0.6144}$

and: F8.5664/ $\pounds$  (expected price, Paris and New York)

(d) Based on (c); the New York price of francs: F 8.5664/ $\pounds$ ; Paris—actual price of francs = F8.5000.  
Therefore buy  $\pounds$ s in Paris with francs, and sell  $\pounds$ s in New York for francs.  
One would profit at 0.0064 f/ $\pounds$  until the prices equalized.