

Exam 1

Business



Number: Work: Business An MNC frequently uses either forward or futures contracts to hedge its exposure to foreign payables. To do so, the MNC can either sell the foreign currency forward or sell futures.

Answer: True

2. Graylon, Inc., based in Washington, exports products to a German firm and will receive payment of €200, 000 in three months. On June 1, the spot rate of the euro was \$1. 12, and the 3-month forward rate was \$1. 10. On June 1, Graylon negotiated a forward contract with a bank to sell €200, 000 forward in three months. The spot rate of the euro on September 1 is \$1. 15. Graylon will receive \$___ for the euros.

Answer: 230, 000

3. A purely domestic firm may be affected by exchange rate fluctuations if it faces at least some foreign competition.

Answer: True

4. If a U. S.-based MNC focused completely on exporting, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

Answer: True

5. An MNC frequently uses either forward or futures contracts to hedge its exposure to foreign receivables. To do so, the MNC can either sell the foreign currency forward or sell futures.

Answer: True

6. Assume a Japanese firm invoices exports to the U. S. in U. S. dollars. Assume that the forward rate and spot rate of the Japanese yen are equal. If the Japanese firm expects the U. S. dollar to ___ against the yen, it would likely wish to hedge. It could hedge by ___ dollars forward.

Answer: Appreciate; buying

7. Assume that \$1 is equal to .85 Euros and 98 yen. The value of yen in euros is

Answer: 0.0087

8. Imperfect markets represent conditions under which factors of production are immobile.

Answer: False

9. An MNC will always use the same required rate of return in the valuation of foreign projects, as it would for its domestic projects.

Answer: False

10. If a U. S. firm sets up a plant in Mexico to benefit from low cost labor, it will likely have a comparative advantage over other firms in Mexico that sell the same product.

Answer: True

11. The interest rate in developing countries is usually very low.

Answer: False

12. The degree of financial information that must be provided by public companies is the same among countries.

Answer: False

13. Saller Co. has a subsidiary in Mexico. The expected cash flows in pesos to be received in the future from this subsidiary have not changed since last month, but the valuation of Saller Co. has declined since last month. What could've caused this decline in value?

Answer: A weaker Mexican economy

14. Jensen Co. wants to establish a new subsidiary in Mexico that will sell computers to Mexican customers and remit earnings back to the U. S.

parent. The value of this project will be favorably affected if the value of the peso ____ while it establishes the new subsidiary and ____ when the subsidiary starts operations.

Answer: Appreciates; depreciates

15. J&L Co. is a U. S.-based MNC that frequently exports computers to Italy. J&L typically invoices these goods in euros and is concerned that the euro will depreciate in the near future. Which of the following is not an appropriate technique under these circumstances?

Answer: Purchase euro put options.

16. A U. S.-based MNC has many foreign subsidiaries in Europe and does not expect to increase its investment there. Its value should increase if the value of the euro weakens over time.

Answer: False

17. Assume that Live Co. has expected cash flows of \$200, 000 from domestic operations, SF200, 000 from Swiss operations, and 150, 000 euros from Italian operations at the end of the year. The Swiss francs value and euros value are expected to be \$. 83 and \$1. 29 respectively, at the end this year. What are the expected dollar cash flows of Live Co?

Answer: 559, 500

18. In comparing exporting to direct foreign investment (DFI), an exporting operation will likely incur ____ fixed production costs and ____ transportation costs than DFI.

Answer: Lower; higher

19. Licensing is the process by which a firm provides its technology (copyrights, patents, trademarks, or trade names) in exchange for fees or some other specified benefits.

Answer: True

20. One form of an exposure to political risk is terrorism.

Answer: True

21. Forward contracts are usually negotiated with a commercial bank, while futures contracts are traded on an organized exchange.

Answer: True

22. If a U. S.-based MNC focused completely on importing, then its valuation would likely be adversely affected if most currencies were expected to appreciate against the dollar over time.

Answer: True

23. A forward contract can be used to lock in the ____ of a specified currency for a future point in time.

Answer: A or B

Work cited

Moosa, Imad A. Foreign Direct Investment: Theory, Evidence, and Practice.

New York:

Palgrave, 2002. Print.