

***HSE-IB Test Syllabus: International Business: Environments and Operations, 15e, Global Edition (Daniels et al.). For use of the student for an educational purpose only, do not reproduce or redistribute.***

**Chapter 8 Markets for Foreign Exchange**

**MULTIPLE CHOICE: CIRCLE THE LETTER OF THE ONE BEST ANSWER**

**ACCORDING TO THE TEXTBOOK:**

- 1) Western Union's role in foreign-exchange trading is best described as \_\_\_\_\_.
  - A) setting a fair exchange rate in multiple currencies
  - B) transferring currency from one country to another
  - C) transferring Mexican pesos from the United States to Mexico
  - D) handling all money transfers that occur between North and South America
  
- 2) A major challenge faced by Western Union in wiring money between the United States and Mexico is that \_\_\_\_\_.
  - A) it can only transfer funds in one direction
  - B) it is facing competition from some commercial banks
  - C) Mexican citizens do not like to use its services because it does not have strong ties with Mexican banks
  - D) Mexican citizens trust the banks but do not trust Western Union due to its heritage as a Western bank
  
- 3) In 2010, what was the top remittance-receiving country in the world?
  - A) Brazil
  - B) Mexico
  - C) India
  - D) China
  
- 4) Which of the following is the largest source of foreign-exchange income in Mexico?
  - A) FDI
  - B) tourism
  - C) foreign aid
  - D) remittance income

Answer: D
  
- 5) Which term refers to money denominated in the currency of another nation or group of nations?
  - A) foreign exchange
  - B) foreign subsidy
  - C) export tariff
  - D) quota
  
- 6) A(n) \_\_\_\_\_ is the price of a currency in another nations currency.
  - A) tariff
  - B) quota
  - C) exchange rate
  - D) subsidy

7) If Toranaga-san, who works for a Japanese trading company that operates in Japanese yen, wanted to purchase Spanish castanets from a company in Barcelona and needed Euros to complete the transaction, he would use the \_\_\_\_\_ to gain access to spot Euros.

- A) stock market
- B) foreign-exchange market
- C) New York Stock Exchange
- D) international export market

8) The relationship between the value of the Brazilian and Chinese currencies is known as the \_\_\_\_\_.

- A) stock price
- B) exchange rate
- C) foreign-exchange market
- D) purchasing power parity

9) In foreign-exchange markets, reporting dealers are \_\_\_\_\_.

- A) financial institutions that actively participate in local and global foreign-exchange markets
- B) located primarily in New York City since U.S. dollars are the most widely traded currency
- C) controlled by the Bank for International Settlements located in Switzerland
- D) hedge funds and pension funds monitored by the World Bank

10) Which of the following would have the LEAST influence on price setting in the foreign-exchange market?

- A) Morgan Stanley
- B) Deutsche Bank
- C) Western Union
- D) JP Morgan

11) In foreign-exchange markets, reporting dealers \_\_\_\_\_.

- A) work extensively with nonfinancial institutions, such as the regional banks
- B) trade more foreign exchange with other financial institutions than with any other category of users
- C) trade more currency with governments and corporations than with other reporting dealers
- D) are prohibited from trading currencies with other reporting dealers

12) The interbank market in foreign exchange is where \_\_\_\_\_.

- A) electronic brokerage systems are required
- B) banks trade currency with each other
- C) reporting dealers set exchange terms
- D) remittance payments are made

13) An example of an electronic brokerage system used to trade foreign exchange is \_\_\_\_\_.

- A) Reuters
- B) Interbank Traders Ltd.
- C) Bank for International Settlements
- D) the reporting dealers clearing house

14) \_\_\_\_\_ involve the exchange of currency the second day after the date on which the two foreign-exchange traders agree to the transaction.

- A) Spot transactions
- B) Outright forward transactions
- C) FX swaps
- D) Reverse transactions

15) Outright forward transactions involve the exchange of currency on a future date beyond two business days at a fixed exchange rate, known as the \_\_\_\_\_.

- A) spot rate
- B) forward rate
- C) option rate
- D) reverse transaction rate

16) In which of the following transactions is one currency swapped for another on one date and then swapped back on a future date?

- A) reverse transaction
- B) spot transaction
- C) FX swap
- D) outright forward transaction

17) A foreign-exchange contract that is an agreement between two parties to buy or sell a particular currency at a particular price at a particular date in the future as specified in a standardized contract to all participants in the specified market is known as a(n) \_\_\_\_\_.

- A) spot contract
- B) forward contract
- C) futures contract
- D) equity currency contract

18) Which of the following best explains the increase in trading activity in recent years?

- A) growing emphasis on hedge funds
- B) availability of more global currencies
- C) demands for immediate money access
- D) advances in communication technology

19) The \_\_\_\_\_ is the most widely traded currency in the world.

- A) pound
- B) yen
- C) euro
- D) U.S. dollar

20) The U.S. dollar is most likely traded widely because it is \_\_\_\_\_.

- A) a reserve currency held by many central banks
- B) one of the oldest and most stable currencies in the world
- C) monitored by the Bank of International Settlements and the U.S. Federal Reserve
- D) based on prices of the NYSE, which is the world's largest foreign-exchange center

21) Albert, an employee at Morgan Stanley, has been given the task of handling the foreign exchange for a customer who is moving from Brazil to Switzerland in one week. Which of the following should Albert most likely use when exchanging the client's Brazilian real for Swiss francs?

- A) spot rate
- B) cross rate
- C) currency option
- D) current U.S. rate

22) As a trading currency, the euro is \_\_\_\_\_.

- A) more widely traded than the U.S. dollar in seven of the top ten currency markets in the world
- B) widely traded in London but not in any other major foreign-exchange markets in the world
- C) becoming more popular than the U.S. dollar because of its global acceptance
- D) gaining ground against the U.S. dollar in Eastern European countries

23) Why is London most likely the top market for trading foreign exchange?

- A) The British pound is the world's top trading currency.
- B) Most multinational firms are headquartered in London.
- C) London is uniquely positioned geographically in terms of time zones.
- D) British traders have always been the most sophisticated in the world.

24) As a center for foreign-exchange trading, London \_\_\_\_\_.

- A) actually trades more U.S. dollars than are traded in the United States
- B) usually opens up for business as trades are winding down in the United States
- C) deals primarily in European currencies and is not as active in trading U.S. dollars
- D) deals primarily in spot rather than forward trades

25) The top location for trading foreign exchange is \_\_\_\_\_.

- A) London
- B) New York
- C) Zurich
- D) Tokyo

26) Which of the following is NOT one of the top four locations for trading foreign exchange?

- A) London
- B) New York
- C) Tokyo
- D) Hong Kong

27) In the spot market, the \_\_\_\_\_ is the difference between the bid and offer rates and is the trader's profit margin.

- A) bid
- B) offer
- C) cross rate
- D) spread

28) Which of the following is the price at which the trader is willing to sell foreign currency?

- A) offer
- B) bid
- C) spread
- D) cross rate

29) Melissa, a foreign-exchange trader, wants to buy euros from Stephanie. Which of the following is the price at which Melissa is willing to buy euros?

- A) spread
- B) offer
- C) bid
- D) cross rate

30) In the foreign-exchange market, the bid is the rate at which \_\_\_\_\_.

- A) the trader is willing to sell foreign exchange
- B) the buyer is willing to swap foreign exchange
- C) the trader is willing to buy foreign exchange
- D) the trader earns a profit

31) If a foreign currency is quoted in American terms (the direct quote) and the forward rate for a foreign currency is less than the spot rate, the foreign currency is selling at a \_\_\_\_\_.

- A) forward premium
- B) backward discount
- C) backward premium
- D) forward discount

32) If a foreign currency is quoted in American terms (the direct quote) and the forward rate is greater than the spot rate, the foreign currency is selling at a \_\_\_\_\_.

- A) forward premium
- B) forward discount
- C) backward discount
- D) discounted premium

33) The pound-dollar forward rate for pounds is \$1.9068, and the spot rate is \$1.9059. Pounds are selling at a \_\_\_\_\_.

- A) discounted premium
- B) backward discount
- C) forward premium
- D) forward discount

34) The pound-dollar forward rate for pounds is \$1.9068, and the spot rate is \$1.9100. Pounds are selling at a \_\_\_\_\_.

- A) discounted premium
- B) backward discount
- C) forward discount
- D) forward premium

35) A(n) \_\_\_\_\_ is the right but not the obligation to buy or sell a foreign currency within a certain time period or on a specific date at a specific exchange rate.

- A) forward rate
- B) bid
- C) offer
- D) option

36) Which of the following is most likely true regarding options?

- A) An option can only be purchased from a commercial bank.
- B) Options are never used with foreign currency.
- C) An option is a right to sell foreign currency.
- D) Options do not provide firms with flexibility.

37) Why are options most likely so attractive to companies?

- A) The writer of the option does not charge the company any fee for writing the option.
- B) Options provide companies with more flexibility than a forward contract.
- C) Options are usually cheaper than forward contracts.
- D) Options can be used for only foreign-exchange deals.

38) Compared with a forward contract, a futures contract \_\_\_\_\_.

- A) is more flexible
- B) is normally available through commercial banks
- C) does not guarantee a future exchange rate
- D) is only traded on an exchange

39) Stella, who works and lives in San Diego, wants to send money to her mother who lives in a small village south of Puerto Vallarta, Mexico. Stella typically uses Western Union to handle the transaction. Which of the following is the most likely reason that Stella uses Western Union?

- A) no fees
- B) convenience
- C) low exchange rates
- D) cross rate capability

- 40) Which of the following handles the majority of all foreign-exchange activities?
- A) multinational enterprises
  - B) commodities exchanges
  - C) commercial banks
  - D) regional banks
- 41) Which of the following is NOT one of the top exchanges that trade in foreign currency futures and options?
- A) CME
  - B) UBS
  - C) NYSE Liffe
  - D) NASDAQ OMX
- 42) When selecting a commercial and/or investment bank to deal in foreign exchange, corporations are most likely to use \_\_\_\_\_.
- A) the exchange-based market rather than the over-the-counter market
  - B) more than one bank to meet different needs
  - C) banks located in the home country
  - D) investment banks only
- 43) Companies most likely use the foreign-exchange market to \_\_\_\_\_.
- A) diversify their expenses from other sources
  - B) convert money for use in financial transactions
  - C) increase their presence on the black market
  - D) acquire currency from emerging markets
- 44) Companies most likely use the foreign-exchange market to \_\_\_\_\_.
- A) establish fair currency trading policies
  - B) facilitate regular business transactions
  - C) establish a global market presence
  - D) diversify their hedge funds
- 45) If a company from Country A decides to sell merchandise to a company from Country B, then the company from Country A \_\_\_\_\_.
- A) will denominate the sale in its own currency since it is too hard to convert foreign currency
  - B) will denominate the sale in the currency of the buyer since it is too hard for them to convert foreign currency
  - C) can denominate the sale in either currency and use the foreign-exchange market to convert currency
  - D) can use the OTC market to convert receipts in the future and the exchange markets to convert receipts in the spot market
- 46) Which of the following is NOT a reason a company would deal in foreign exchange?
- A) to pay or receive dividends in a foreign currency
  - B) to speculate on possible future movements in a currency
  - C) to buy and sell merchandise denominated in a foreign currency
  - D) to import merchandise denominated in its currency rather than the currency of the exporter

47) In a \_\_\_\_\_, one party directs another party to make payment.

- A) reverse letter of credit
- B) commercial bill of exchange
- C) commercial bill of trade
- D) confirmed irrevocable foreign-exchange transaction

48) Gomez Enterprises, a firm based in Mexico City, exported 1,000 circuit boards to Taylor Industries, a firm based in Chicago. Taylor received a document from Gomez that requests immediate payment for the goods. Gomez has most likely sent a \_\_\_\_\_.

- A) time draft
- B) sight draft
- C) spot draft
- D) futures draft

49) A document requesting payment 30 days after delivery is known as a \_\_\_\_\_.

- A) time draft
- B) sight draft
- C) spot draft
- D) futures draft

50) An irrevocable letter of credit \_\_\_\_\_.

- A) is issued by a global credit agency
- B) is the basis for multilateral credit netting
- C) can be amended only if all parties involved agree
- D) obligates the exporter's bank to pay interest to the importer



51) A letter of credit that provides an exporter with the guarantee of another bank in addition to the importer's bank is called \_\_\_\_\_.

- A) a confirmed letter of credit
- B) a time draft letter of credit
- C) an amendable letter of credit
- D) a cash in advance letter of credit

52) A speculator is someone who \_\_\_\_\_.

- A) trades foreign exchange illegally
- B) deals in the black market in currency
- C) takes positions in foreign-exchange markets to earn a profit
- D) works for OTC financial institutions rather than nonfinancial corporations

53) Anita, an employee at ABX Partners, a hedge fund firm, has purchased euros because she believes that the euro will strengthen against other currencies. Which term best describes Anita's activities?

- A) arbitrage
- B) speculation
- C) spot transaction
- D) outright forward

54) Which of the following best describes arbitrage?

- A) using foreign exchange to fund new foreign direct investments
- B) purchasing foreign currency in anticipation of long-term trends
- C) using foreign-exchange instruments to speculate for profit
- D) purchasing foreign currency on one market for immediate resale on another market

55) Ryan, a foreign-exchange dealer, sold U.S. dollars for Swiss francs in the U.S., then sold Swiss francs for Japanese yen in Switzerland, and then sold the Japanese yen for U.S. dollars in the U.S. Ryan hopes that he will end up with more U.S. dollars than when he began. Which term best describes Ryan's actions?

- A) arbitrage
- B) speculation
- C) spot transaction
- D) outright forward

56) Which of the following is an example of interest arbitrage?

- A) investing in debt instruments in different currencies or different countries
- B) selling U.S. dollars for Swiss francs, then selling Swiss francs for British pounds, then selling British pounds for U.S. dollars
- C) investigating different commercial banks to find the best exchange rate
- D) an American investing in a London-based company

57) How does arbitrage differ from speculation?

- A) Speculation, unlike arbitrage, is never used to protect against risk.
- B) A speculator buys or sells foreign currency with the hope that that currency will either weaken or strengthen in the future, resulting in a profit.
- C) Speculation is the purchase of foreign currency on one market for the immediate resale on

another market.

D) Arbitrage is another way to speculate for profit or protect against risk.

58) Which of the following best explains why migrant workers in Dubai send money back home?

A) Non-citizens cannot purchase property.

B) Non-citizens have temporary visas.

C) Western Union offers low rates.

D) Labor demand is flexible.

59) An investor sells Japanese yen which is yielding a low interest rate and uses the proceeds to buy Swiss francs that yield a higher interest rate. Which term best describes the investor's actions?

A) forward discount spread

B) interbank transaction

C) strike price option

D) carry trade

60) Which of the following is LEAST relevant to being designated by *Euromoney* magazine as a top foreign-exchange dealer?

A) capability of handling specific currencies

B) capability of assessing cultural risk

C) capability of handling derivatives

D) capability of engaging in analytics

- 61) What are the two major segments of the foreign-exchange market? What types of foreign-exchange instruments are traded within these markets?
- 62) What are the characteristics of the spot market? What institutions handle spot exchanges?
- 63) What are the characteristics of the forward market? Why do companies participate in the forward market? Provide an example to illustrate your answer.
- 64) What is a futures contract? What institutions handle futures contracts?
- 65) In a short essay, discuss how companies use foreign exchange.
- 66) What is currency speculation? Why is it risky?
- 67) Why would companies become involved in arbitrage? What is the difference between arbitrage and interest arbitrage?
- 68) What is remittance income? What institutions in Mexico can handle remittance accounts? Why are some institutions used more frequently than others?
- 69) What is the Bank for International Settlements? What three categories does the BIS designate in the foreign-exchange market? Briefly describe each category.
- 70) How is foreign exchange traded? What methods are available?