UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION
JANUARY 2016 SEMESTER

SUBJECT CODE	: **EBB31003**
SUBJECT TITLE	: **INTERNATIONAL FINANCE**
LEVEL	: **BACHELOR**
TIME / DURATION	: 3.00 PM - 6.00 PM / 3 HOURS
DATE	: 20th MAY 2016

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on BOTH sides of the paper.
3. This question paper consists of PART A & B.
4. Answer ONLY FOUR (4) questions in PART A and ONLY THREE (3) questions in PART B.
5. Please write your answers on the answer booklet given.
6. All questions must be answered in English (any other language is not allowed).
7. This question paper must not be removed from the examination hall.

THERE ARE FOUR (4) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

SECTION A (Total: 40 marks)

INSTRUCTION: Answer ONLY FOUR (4) questions
Please use the answer booklet provided.

Question 1

Define balance of payments (BOP)? Why balance of payments is important in international finance?

(10 marks)

Question 2

Define interest rate swap and how the bank can take advantage?

(10 marks)

Question 3

Define official reserve. What is the function of official reserve?

(10 marks)

Question 4

What is the difference between a future contract and an options contract?

(10 marks)

Question 5

How is international financial management different from domestic financial management?

(10 marks)

SECTION B (Total: 60 marks)

INSTRUCTION: Answer ONLY THREE (3) questions
Please use the answer booklet provided

Question 1

$/£	BID	ASK
Spot	1.78	1.79
Forward (1 year)	1.74	1.75
US interest rates	8%	9%
UK interest rates	8.5%	9.5%

A. Are there arbitrage opportunities?

(2 marks)

B. If yes, what is the strategy and what are the profits per trip (per $ or per £)?

(18 marks)

[Total: 20 Marks]

Question 2

Given the following quotes:

	BID	ASK
$/£	1.8163	1.8345
$/€	1.1801	1.2102

Find the quotes for:

A. BID €/£.

(10 marks)

B. ASK €/£.

(10 marks)

[Total: 20 marks]

Question 3

An investment banker is aware of the following borrowing costs of two of its client's corporation:

Corporate	**Fixed rate cost**	**Floating rate cost**
A	10%	LIBOR +1%
B	11%	LIBOR + 3%

The banker has ascertained that each party is indifferent to borrowing fixed or floating and will sign an interest rate swap agreement if offered a 0.25% benefit.

a. What spread will the banker earn on the deal?

(4 marks)

b. Prior to swapping, which corporation will borrow fixed and which will borrow floating?

(4 marks)

c. After the swap, what will be the net cost to corporate A? What will be the net cost to corporate B?

(4 marks)

d. If the deal stipulates that the bank will pay corporate A a floating rate of LIBOR + 2%, what rate will corporate A be paying the bank?

(4 marks)

e. If the deal stipulates that the bank will pay corporate B a fixed rate of 10.25%, what floating rate will corporate B be paying the bank?

(4 marks)

[Total: 20 Marks]

Question 4

During the 1997 East Asian Financial crisis, the ringgit was subjected to heavy speculative attacks that made the dollar to appreciate over it. Nonetheless, the Singapore dollar appreciated over the ringgit while it depreciated against the dollar.

Assuming the following exchange rates before the crisis, explain the above observation.

RM/USD = 2.40 Sing$/USD = 1.60 RM/Sing$ = 1.50

After the speculative attack, the RM/USD = 4.20. The rest remain the same.

a. Is any arbitrage opportunity exist?

(2 marks)

b. Prove it by showing the working?

(18 marks)

[Total: 20 Marks]

END OF QUESTION PAPER