FIN 435
International Financial Management
Summer 2000
Midterm #2
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Explain all answers carefully

1.
2.
3.
4.
5.
6.
7.
8.
Total

1. ABC corporation has just sold equipment to a French company exports worth FF 80 million with payment due in three months. The spot rate is FF 7.4/$ and the 3 month forward rate is FF 7.5/$. Also assume:

3 month French interest rate	9.00% p.a.
3 month U.S. interest rate	4.00% p.a.
3 month call option on Francs at FF 7.5/$ (strike price)	3.0% premium
3 month put option on Francs at FF 7.5/$ (strike price)	2.4% premium

a) How can ABC hedge this risk?
b) Which alternative would you choose and why?

30pts

2.) What types of U.S. firms benefit from an increase in the value of the U.S. dollar? 10pts

3.) What is a reinvoicing center? What type of exposure does it primarily address? 10pts

4. Explain the concept of matching cash flows. In your answer provide an example.

10pts.

5. If you have a call option on DM's with a strike price of $.75/DM, will you exercise this option on the expiration date if the spot price on that date is $.74/DM? Assume that the premium was $.02/DM. Start your answer with yes (exercise) or no (not exercise).

10pts

6. If a firm has multiple production plants (in different countries) how would this help with reducing operating exposure?

7. How would you speculate using the forward market given the following information?

10pts

6 month forward rate $2.03/
Your expectation of the 6 month spot rate $2.00/

8. When does a writer of a put option make money? 10pts