

CÂU HỎI LUYỆN TẬP

ECONOMICS CFA LEVEL 2

Question 1: A bank in Canada is quoting CAD/USD 1.4950 – 1.5005, and USD/EUR 0.9350 – 0.9400. What is bid/ask exchange rate for CAD/EUR?

- A. CAD/EUR 1.3978 – 1.4105.
- B. CAD/EUR 0.6254 – 0.6264.
- C. CAD/EUR 1.5904 – 1.6048.

Question 2: Under the Mundell-Fleming model and the portfolio balance approach to exchange rate determination, a country following sustained expansionary fiscal policy would see its currency:

- A. appreciate in the short-run and depreciate in the long-run.
- B. appreciate in the short-run and appreciate in the long-run.
- C. depreciate in the short-run and depreciate in the long-run.

Question 3: Today, the spot rate on pounds sterling is \$0.6960 and 90-day forward pounds are priced at \$0.6925. The forward discount/premium is:

- A. premium of \$0.0035.
- B. premium of \$0.0005.
- C. discount of \$0.0035.

Question 4: Which of the following statements regarding relative purchasing power parity is most accurate? Relative purchasing power states that exchange rates:

- A. will change to rectify differences in inflation between countries.
- B. will change to rectify differences in nominal interest rates between countries.
- C. will change to rectify differences in real interest rates between countries.

Question 5: Zimbabwe is a developed economy with high capital mobility. Deborah Isaacson is evaluating the Zim (Z\$), the national currency of Zimbabwe. Which of the following is most likely to lead to appreciation of Z\$? If Zimbabwe starts following:

- A. an expansionary fiscal policy.
- B. a loose monetary policy.
- C. a restrictive fiscal policy.

Question 6: Which of the following statements regarding purchasing power parity (PPP) is least accurate?

- A. Under absolute PPP the foreign price level expressed in domestic currency terms should be equal to the domestic country's price level.
- B. Absolute PPP is similar to the law of one price, except it concerns a basket of goods rather than a single good.
- C. Relative PPP states that prices for goods and services are the same whether it is for one good or for a basket of goods.

Question 7: Ninety days ago, Marc Samuelson entered into a 180-day forward contract to purchase 1 million CHF at an all-in rate of \$1.0225/CHF.

The following USD/CHF quotes are currently available in the market:

Spot	1.0301/1.0302
30 days	-12.3/-11.9
90 days	-16.0/-14.8
180 days	-18.9/-17.8

Interest rates:

90-day CHF	1.02%
180-day CHF	1.03%
90-day USD	1.00%
180-day USD	0.99%

The mark-to-market value of Samuelson's position is closest to:

- A. \$7,585.
- B. \$5,985.
- C. -\$6,735.

Passage (Question 8-10):

Jennifer Nance has recently been hired as an analyst at the Central City Bank in the currency trading department. Nance, who recently graduated with a degree in economics, will be working with other analysts to determine if there are profit opportunities in the foreign exchange market.

Nance has the following data available:

	U.S. Dollar (\$)	U.K. Pound (£)	Euro(€)
Expected inflation rate	6.0%	3.0%	7.0%
One-year nominal interest rate	10.0%	6.0%	9.0%

Market Spot Rates			
	U.S. Dollar (\$)	U.K. Pound (£)	Euro(€)
<i>U.S. Dollar (\$)</i>	\$1.0000	\$1.6000	\$0.8000
<i>U.K. Pound (£)</i>	0.6250	1.0000	2.0000
<i>Euro (€)</i>	1.2500	0.5000	1.0000

Market 1-year Forward Rates			
	U.S. Dollar (\$)	U.K. Pound (£)	Euro(€)
<i>U.S. Dollar (\$)</i>	\$1.0000	\$1.6400	\$0.8082
<i>U.K. Pound (£)</i>	0.6098	1.0000	2.0292
<i>Euro (€)</i>	1.2373	0.4928	1.0000

Nance receives a report from Jamshed Banaji, Chief Economist at Central City Bank providing broad U.K. and U.S. macro-economic forecasts. Nance notes that the Bank of England is expected to pursue an expansionary monetary policy while the Federal Reserve monetary policy is expected to be neutral. Also, the British parliament is expected to reduce the budget deficits more aggressively as compared to the U.S.

Question 8-10: The no-arbitrage one-year forward USD/EUR rate is closest to:

A. USD/EUR 0.7925.

B. USD/EUR 0.8082.

C. USD/EUR 0.8073.

Question 9-10: For this question only, assume that the United States has a current account surplus versus the U.K. The amount by which the £/\$ has to change to restore current account balance is least likely to depend on:

- A. the initial level of current account surplus.
- B. the projected current account deficit.
- C. the response of import and export demand to changes in export prices.

Question 10-10: For an investor pursuing a carry-trade, the funding currency would most likely be the:

- A. Pound.
- B. Euro.
- C. U.S. Dollar.

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1. A	2. A	3. C	4. A	5. A	6. C	7. B	8. C	9. C	10. B
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Question 1: A

The CAD/EUR bid quote is $1.495 \times 0.935 = 1.3978$

The CAD/EUR ask quote is $1.5005 \times 0.940 = 1.4105$

Question 2: A

Under Mundell-Fleming model, a country running expansionary fiscal policy (i.e., running fiscal deficits) would attract foreign capital due to high interest rates and will see its currency appreciate in the short-run. Under the asset market approach, in the long-run sustained deficits will increase the risk of the country's debt and lead to a currency depreciation.

Question 3: C

Premium (discount) = $F - S = 0.6925 - 0.696 = -0.0035$ (i.e., a discount).

Question 4: A

Purchasing power parity states that exchange rates will change to reflect differences in inflation between countries. Interest rate parity states that exchange rates must change so that risk-adjusted returns on investments in any currency will be equal.

Question 5: A

If Zimbaya follows an expansionary fiscal policy, government borrowing will increase leading to an increase in interest rates. This increase in interest rates will attract capital inflows to Zimbaya, leading to an appreciation of the Z\$. Either an expansionary ("loose") monetary policy or a restrictive fiscal policy should lead to lower interest rates and to depreciation of Z\$.

Question 6: C

Relative PPP does not state that prices for goods and services are the same, only that the rate of change in the FX rate is a function of the inflation differentials between the two countries.

Question 7: B

Samuelson is currently long CHF in the forward market. Closing or offsetting that position requires a short forward contract in CHF (i.e., A contract to convert CHF into USD). To calculate the mark-to-market value, we first need to have the forward all-in bid price:

$$1.0301 - (16.0/10,000) = 1.0285.$$

$$\text{Mark-to-market value} = \frac{(FP_t - FP)(\text{contract size})}{(1 + R \frac{\text{days}}{360})} = \frac{(1.0285 - 1.0225)(1,000,000)}{(1 + 0.01(\frac{90}{360}))} = \$5,985$$

Question 8: C

Interest rate parity implies that, in order to prevent covered interest arbitrage, the one-year forward USD/EUR rate should be equal to $\$0.8000(1.10) / (1.09) = \0.8073 .

Question 9: C

The adjustment to exchange rates to restore current accounts to a balanced position depends on:

- The level of initial deficit.
- The response of import and export demand to changes in import and export prices.
- The response of import and export prices to changes in the exchange rate.

Question 10: A

Under a carry trade, the funding currency is the lower yielding currency (in this case, the pound with 1-year nominal interest rate of 6% is the best candidate).