International Financial Manangement
C45.0030.001
Problem Set I (Chapters 1 –4)
Due 9/18, Thursday

Chapter 1.

1. Read the mini-case on page 20-21 about the corporate governance practices @ Brazil Telecom, from the textbook of Moffett, Stonehill, & Eiteman (MSE). Answer question 2 from the case study questions on page 21.

2. If shareholders are dissatisfied w/ their company, what can they do? Give me couple of possible actions.

3. Many European firms have two types of share capital for their common stockholders, A and B shares, w/ different voting rights. Owners of one class have more voting power than owners of the other class (this relates to the voting rights of common shareholders, not preferred stockholders). Why do you think Europeans allow a differential in the voting rights for common stockholders?

Chapter 2.

1. The mobility of international capital flows is causing emerging market nations to choose between a free-floating currency exchange regime and a currency board (or dollarization). Describe shortly how each of the regimes would work.

2. What is the difference between dollarization and currency board?

Chapter 3.

1. Look at Problem 3.10. (parts a, b, c, d, h, & k) on page 59 from MSE. Classify each of the transactions as a debit/credit to the appropriate account of the BOP.

2. Answer parts **a**, **b**, & **d** of Problem 3.4 on page 61 of MSE.

3. What is the Official Reserves Account (ORA) and why is it more important for countries under a fixed exchange rate regime than for ones under a floating exchange rate regime?

Chapter 4.

1. Suppose that one-year interest rates are 6% in the US and 8% in UK. The current spot rate b/n the British pound and US$ is $ 1.48/pound. What would you expect the spot rate for the pound to be one year hence if you believe that the international Fisher effect holds?

2. In Japan, Honda's export price per vehicle, FOB (that means free of board) Yokohama, was 5 million yen at a time when the exchange rate was 125 yen per US$. The expected rate of inflation in Japanese yen for the coming year is 1 %. The expected rate of inflation in US is 3 %. Honda actively tries to limit pass through of exchange rate changes into prices to 60 % of annual changes.

   a. What was the US$ price of a Honda @ the beginning of the year?
   b. Assuming purchasing power parity, what was the expected spot exchange rate @ the end of the coming year?
   c. Assuming 60% pass-through of exchange rate changes, what would the price of a Honda be @ the end of the coming year in US$?

3. Forward rates & expected inflation. Answer the questions in problem 11 on pages 87-88 of MSE.

BTW, I found a cool site to check interest rate abbreviations, check it out: www.xe.com. Thanks google!