Session 12: Post Class tests

1. When companies borrow money, interest rates can vary across currencies. Assume that a given company is issuing a bond to fund a specific project, what is the biggest reason for differences in interest rates across currencies?
    a. Differences in country risk
    b. Differences in company risk
    c. Differences in project risk
    d. Differences in expected inflation
    e. None of the above
2. The exchange rate currently is 22 Mexican pesos/US dollar. If the interest rate in pesos is 6% and the interest rate in US dollars is 2%, what would you expect the exchange rate a year to be a year from now?
    a. 20.75 pesos/$
    b. 21.17 pesos/$
    c. 22.86 pesos/$
    d. 23.32 pesos/$
    e. None of the above
3. You are trying to forecast the US $/British Pound exchange rates for the next 10 years, using expected inflation, anticipated to be 1% (annually) in the US and 2% in the UK. If the current exchange rate is $1.30/£, what is the expected exchange rate in year 10?
    a. $1.07/£.
    b. $1.18/£.
    c. $1.43/£.
    d. $1.58/£.
    e. None of the above
4. Now assume that you are forecasting the Indian Rupee/US $ exchange rate five years from now. If expected inflation in the US $ is expected to be 1%, but inflation in the rupee is anticipated to be 10% for the next 2 years and 6% in the following three years, what is the expected Rs/$ exchange rate in year 5, if the current exchange rate is Rs 75/US $?
    a. Rs 54.70/$
    b. Rs 95.50/$
    c. Rs 102.84/$
    d. Rs 114.93/$
    e. None of the above