

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) The choice of when and how to source capital globally is usually aided early on by the advice of: 1) _____
A) a commercial banker. B) an underwriter.
C) an investment banker. D) your stock broker.
- 2) Investment banking services include which of the following? 2) _____
A) advising when a security should be cross-listed
B) help to determine the price of the issue
C) preparation of stock prospectuses
D) all of the above
- 3) Which of the following is the typical order of sourcing capital abroad? 3) _____
A) cross listing the outstanding issues on other exchanges, then an international bond issue, then an international bond issue in the target market
B) an international bond issue in the target market, then cross listing the outstanding issues on other exchanges, then an international bond issue
C) an international bond issue in less prestigious markets, then an international bond issue in the target market, and ultimately a eurobond issue
D) an international bond issue, then cross listing the outstanding issues on other exchanges, then an international bond issue in the target market
- 4) By cross listing and selling its shares on a foreign stock exchange, a firm typically tries to accomplish which of the following? 4) _____
A) increase its share price
B) increase the firm's visibility
C) improve the liquidity of its existing shares
D) all of the above

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 5) Most firms raise their initial capital in foreign markets. 5) _____

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- 6) Which financial economists are most closely associated with the financial theory of optimal capital structure? 6) _____
A) Fama, Fisher, Jensen, and Roll B) Black and Scholes
C) Markowitz and Sharpe D) Modigliani and Miller

- 7) For most firms, the cost of capital decreases to a low point as the firm _____ debt financing. At some point beyond this optimal level, the cost of capital increases as the amount of debt _____. 7) _____
- A) increases; increases
B) decreases; decreases
C) increases; decreases
D) decreases; increases
- 8) One of the most important factors in making debt less expensive than equity is: 8) _____
- A) the tax deductibility of depreciation.
B) the tax deductibility of dividends.
C) the tax deductibility of interest.
D) the tax deductibility of equity.
- 9) One of the most important factors in making debt less expensive than equity is: 9) _____
- A) the seniority of debt obligations to equity claims.
B) the tax deductibility of dividends.
C) the tax deductibility of equity.
D) the seniority of equity obligations to debt claims.
- 10) Which of the following is NOT a factor offsetting the tax advantage of debt as a source of financing? 10) _____
- A) alternative tax shields to those supplied by interest payments
B) increased agency costs
C) increased probability of financial distress (bankruptcy) due to fixed interest payments
D) All of the above offset the tax advantage of debt as a source of financing.
- 11) Most financial theorists believe that the optimal capital structure is a _____ with a debt to total value ratio somewhere around _____. 11) _____
- A) point; 50%
B) range; 10%-40%
C) point; 25%
D) range; 30%-60%
- 12) Not all firms have the same optimal capital structure. Factors that might influence a firm's capital structure include: 12) _____
- A) the collateral value of its assets.
B) the volatility of its sales and operating income.
C) the industry in which it operates.
D) all of the above
- 13) MNEs situated in countries with small illiquid and segmented markets are most like: 13) _____
- A) large U.S. MNEs in that they are all MNEs and have worldwide markets and sources of financing.
B) small domestic U.S. firms in that they must rely on internally generated funds and bank borrowing.
C) small domestic U.S. firms in that they have a strong niche market in the U.S.
D) None of the above is true.

- 14) In theory, the MNE should support _____ debt ratios than a purely domestic firm because their cash flows are _____. 14) _____
 A) lower; less stable due to international diversification
 B) higher; more stable due to international diversification
 C) lower; more stable due to international diversification
 D) higher; less stable due to international diversification
- 15) TropiKana Inc., a U.S firm, has just borrowed \$1,000,000 to make improvements to an Italian fruit plantation and processing plant. If the interest rate is 6.00% per year, how much interest will they pay in the first year? 15) _____
 A) \$6,000 B) \$600,000 C) €60,000 D) \$60,000
- 16) TropiKana Inc., a U.S firm, has just borrowed euro 1,000,000 to make improvements to an Italian fruit plantation and processing plant. If the interest rate is 5.50% per year and the Euro depreciates against the dollar from \$1.40/€ at the time the loan was made to \$1.35/€ at the end of the first year, how much interest will TropiKana pay at the end of the first year (rounded)? 16) _____
 A) \$77,000 B) \$55,000 C) €74,250 D) \$74,250
- 17) TropiKana Inc., a U.S firm, has just borrowed euro 1,000,000 to make improvements to an Italian fruit plantation and processing plant. If the interest rate is 5.50% per year and the Euro appreciates against the dollar from \$1.40/€ at the time the loan was made to \$1.45/€ at the end of the first year, how much interest will TropiKana pay at the end of the first year (rounded)? 17) _____
 A) \$55,000 B) \$77,000 C) \$79,750 D) \$37,931
- 18) TropiKana Inc., a U.S firm, has just borrowed euro 1,000,000 to make improvements to an Italian fruit plantation and processing plant. If the interest rate is 5.50% per year and the Euro appreciates against the dollar from \$1.40/€ at the time the loan was made to \$1.45/€ at the end of the first year, how much interest and principle will TropiKana pay at the end of the first year if they repay the entire loan plus interest (rounded)? 18) _____
 A) \$1,529,750 B) \$1,477,000 C) \$1,055,000 D) €1,529,750
- 19) TropiKana Inc., a U.S firm, has just borrowed euro 1,000,000 to make improvements to an Italian fruit plantation and processing plant. If the interest rate is 5.50% per year and the Euro depreciates against the dollar from \$1.40/€ at the time the loan was made to \$1.35/€ at the end of the first year, how much interest and principle will TropiKana pay at the end of the first year if they repay the entire loan plus interest (rounded)? 19) _____
 A) \$1,055,000 B) \$1,424,250 C) €1,424,250 D) \$1,477,000
- 20) TropiKana Inc., a U.S firm, has just borrowed euro 1,000,000 to make improvements to an Italian fruit plantation and processing plant. If the interest rate is 5.50% per year and the Euro appreciates against the dollar from \$1.40/€ at the time the loan was made to \$1.45/€ at the end of the first year, what is the before tax cost of capital if the firm repays the entire loan plus interest (rounded)? 20) _____
 A) 5.50% B) 9.27% C) 10.50% D) 1.73%

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 21) Financial theory has at last provided us with a single optimal capital structure for domestic firms. 21) _____

- 22) Financial practice suggests that there is a range for an optimal capital structure for a firm within an industry rather than a specific optimal ratio of debt to equity. 22) _____
- 23) In part because of access to global markets, MNEs are better able than their domestic counterparts to maintain their desired debt ratio even when raising new capital. 23) _____
- 24) When a firm borrows in a foreign currency, the effective cost is the foreign interest rate plus an adjustment for changes in the exchange rate. 24) _____
- 25) The domestic theory of optimal capital structure does not need to be modified for MNEs. 25) _____
- 26) Portfolio diversification of domestic firms reduces risk because cash flows are not perfectly correlated. The same reasoning is often argued for MNEs diversifying into international markets. 26) _____
- 27) A significant advantage of borrowing foreign currency-denominated bonds is that the borrower need not worry about relative changes in the value of the home currency. 27) _____
- 28) For firms to raise capital in international markets, it is more important to adhere to capital structure ratios similar to those found in the United States and United Kingdom than to those in the firm's home country. 28) _____

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- 29) The stock exchange with the greatest value of shares traded is: 29) _____
 A) Tokyo. B) London. C) Nasdaq. D) NYSE.
- 30) The number of foreign firms traded on the London exchange is _____ than the number traded on the NYSE, and the costs of listing and disclosure in London are _____ those for the NYSE. 30) _____
 A) less than; greater than B) less than; less than
 C) greater than; less than D) greater than; greater than

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 31) The Tokyo exchange is the number one choice of firms looking to gain liquidity by cross-listing their equity securities. 31) _____
- 32) The least liquid stock markets as identified by the authors offer little liquidity for their own domestic firms, and are of little value to foreign firms. 32) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 33) _____ are negotiable certificates issued by a bank to represent the underlying shares of stock, which are held in trust at a foreign custodian bank. 33) _____
A) Negotiable CDs B) Eurodeposits
C) Depositary receipts D) International mutual funds
- 34) Depositary receipts traded outside the United States are called _____ depositary receipts. 34) _____
A) American B) Global
C) Euro D) none of the above
- 35) Each ADR represents _____ of the shares of the underlying foreign stock. 35) _____
A) 1
B) a multiple
C) 100
D) ADRs have nothing to do with foreign stocks.
- 36) Which of the following is NOT an advantage of ADRs to U.S. shareholders? 36) _____
A) Transfer of ownership is done in the U.S. in accordance with U.S. laws.
B) Settlement for trading is generally faster in the United States.
C) In the event of the death of the shareholder, the estate does not go through a foreign court.
D) All of the above are advantages of ADRs.
- 37) ADRs that are created at the request of a foreign firm wanting its shares traded in the United States are: 37) _____
A) sponsored. B) facilitated. C) unsponsored. D) unfacilitated.
- 38) Who pays the costs of creating a sponsored ADR? 38) _____
A) the foreign firm whose stocks underlie the ADR
B) the SEC since they require the regulation
C) the U.S. bank creating the ADR
D) both the U.S. bank and the foreign firm
- 39) Level I ADRs trade primarily: 39) _____
A) over the counter or pink sheets.
B) on the New York Stock Exchange.
C) on the American Stock Exchange.
D) Level I ADRs typically do not trade at all, but instead are privately issued and held until maturity.

40) Level II ADRs must meet: 40) _____
A) home country accounting standards.
B) U.S. GAAP standards.
C) both U.S. GAAP and home country standards.
D) none of the above

41) Level _____ is the easiest standard to satisfy for issuing ADRs. 41) _____
A) 144a B) I C) III D) II

42) Level III ADR commitment applies to: 42) _____
A) the sale of a new equity issued in the United States.
B) ADR issues of under \$25,000.
C) firms that want to list existing shares on the NYSE.
D) banks issuing foreign mutual funds.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

43) ADRs cannot be exchanged for the underlying shares of the foreign stock, therefore, arbitrage cannot keep the prices in line with the foreign price of the stock. 43) _____

44) An unsponsored ADR may be initiated without the approval of the foreign firm with the underlying stock. 44) _____

45) ADRs are considered an effective way for firms to improve the liquidity of their stock, especially if the home market is small and illiquid. 45) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

46) ADRs are a popular investment tool for many U.S. investors. In recent years several alternatives for investing in foreign equity securities have become available for U.S. investors, yet ADRs remain popular. Define what an ADR is and provide at least three examples of the advantages they may hold over alternative foreign investment vehicles for U.S. investors.

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47) Which of the following were NOT identified by the authors as an alternative instrument to source equity in global markets? 47) _____
A) sale of a directed public share issue to investors in a target market
B) sale of shares to private equity funds
C) private placements under SEC rule 144a
D) All of the above are alternatives to source equity instruments.

- 48) A/An _____ is defined as one that is targeted at investors in a single country and underwritten in whole or part by investment institutions from that country. 48) _____
 A) Euroequity public issue B) SEC rule 144a placement
 C) strategic alliance D) directed public share issue
- 49) The term "euro" as used in the euro equity market implies: 49) _____
 A) the investors are located in Europe. B) the issuers are located in Europe.
 C) both A and B D) none of the above
- 50) Private equity funds (PEF) differ from traditional venture capital (VC) funds in that: 50) _____
 A) VC operates mainly in lesser-developed countries while PEF do not.
 B) VC is almost unavailable to emerging markets while PEF capital is available.
 C) VC typically invests in family business whereas PEF do not.
 D) All of the above are true.
- 51) Strategic alliances are normally formed by firms that expect to gain synergies from which of the following? 51) _____
 A) economies of scope B) economies of scale
 C) complementary marketing D) all of the above

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 52) SEC rule 144A permits institutional buyers to trade privately placed securities without the previous holding periods restrictions and without requiring SEC registration. 52) _____

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- 53) Your authors note several empirical studies that have found: 53) _____
 A) a negative share price effect for foreign firms that cross-list on major U.S. exchanges.
 B) no share price effect for foreign firms that cross-list on major U.S. exchanges.
 C) a positive share price effect for foreign firms that cross-list on major U.S. exchanges.
 D) none of the above
- 54) Empirical evidence shows that new issues of equity by domestic firms in the U.S. market typically has a _____ stock price reaction and new equity issues in the U.S. markets by foreign firms with segmented domestic markets have a _____ stock price reaction. 54) _____
 A) negative; negative B) negative; positive
 C) positive; negative D) positive; positive

- 55) In addition to gaining liquidity, which of the following could also be considered a legitimate reason for cross-listing equity? 55) _____
- A) get better local press coverage
 - B) enhance a firm's local image
 - C) become more familiar with the local financial community
 - D) all of the above
- 56) Another school of thought about the worldwide trend toward fuller and more standardized disclosure rules is that the cost of U.S. level equity capital disclosure: 56) _____
- A) leads to fewer foreign firms cross listing in U.S. equity markets.
 - B) is an onerous costly burden.
 - C) chases away potential listers of equity.
 - D) all of the above
- 57) According to the U.S. school of thought, the worldwide trend toward fuller and more standardized disclosure rules should _____ the cost of equity capital. 57) _____
- A) decrease
 - B) increase
 - C) have no impact on
 - D) none of the above
- 58) For the most part, U.S. SEC disclosure requirements are _____ other, non-U.S. equity market rules. 58) _____
- A) less stringent than
 - B) equally stringent to
 - C) more stringent than
 - D) none of the above

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 59) The combined impact of a new equity issue undertaken simultaneously with a cross-listing has a more favorable impact on stock price than cross-listing alone. 59) _____
- 60) Because of stringent SEC rules, American companies typically do not find foreign disclosure rules to be overly onerous. 60) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 61) What are the two schools of thought regarding the worldwide trend toward increased financial disclosure by publicly traded firms. Explain which school of thought you hold to and why.

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- 62) _____ are domestic currencies of one country on deposit in a second country. 62) _____
- A) Discount window deposits
 - B) Eurocurrencies
 - C) Federal funds
 - D) LIBORs

- 63) Of the following, which was NOT cited by the authors as a valuable function provided by the Eurocurrency market? 63) _____
- A) Eurocurrency deposits are an efficient and convenient money market device for holding excess corporate liquidity.
 - B) The Eurocurrency market is a major source of short-term bank loans to finance corporate working capital needs.
 - C) Eurocurrency deposits are a tool used by the Federal Reserve to regulate the money supply of countries that peg their currency against the U.S. dollar.
 - D) All of the above were cited by the authors.
- 64) Eurobanks are: 64) _____
- A) major world banks that conduct a Eurocurrency business in addition to normal banking activities.
 - B) financial intermediaries that simultaneously bid for time deposits in and make loans in a currency other than that of the currency of where it is located.
 - C) banks where Eurocurrencies are deposited.
 - D) All of the above are descriptions of a Eurobank.
- 65) Eurocredits are: 65) _____
- A) typically variable rate and tied to the LIBOR.
 - B) bank loans to MNEs and others denominated in a currency other than that of the country where the bank is located.
 - C) usually for maturities of six months or less.
 - D) All of the above are true.
- 66) In general, which has the shorter maturity and is more appropriate for funding short-term inventory needs? 66) _____
- A) commercial paper
 - B) the international bond market
 - C) Euro-Medium-Term notes (EMTNs)
 - D) all of the above
- 67) Foreign bonds sold in the United States are nicknamed "Yankee bonds," foreign bonds sold in Japan are called "Samurai bonds." What are foreign bonds sold in the United Kingdom nicknamed? 67) _____
- A) "Bulldogs"
 - B) "Churchill's"
 - C) "Union Jacks"
 - D) "Royalty"
- 68) A _____ is a bond underwritten by a syndicate from a single country, sold within in that country, denominated in that country's currency, but the issuer is from outside that country. 68) _____
- A) foreign bond
 - B) domestic bond
 - C) Eurobond
 - D) none of the above

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 69) Eurocurrencies are NOT the same as the euro developed for the common European currency. 69) _____
- 70) The Eurocurrency market continues to thrive because it is a large international money market relatively free of governmental regulation and interference. 70) _____

71) Moody's rates international bonds at the request of the issuer with the stipulation that Moody's will publish the ratings even if the ratings are unfavorable.

71) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

72) The Euro-medium-term-note (EMTN) has filled a substantial niche market in global financing. What are the distinguishing characteristics of the EMTN and why is it such a popular form of financing for MNEs?

Answer Key

Testname: UNTITLED5

- 1) C
- 2) D
- 3) C
- 4) D
- 5) FALSE
- 6) D
- 7) A
- 8) C
- 9) A
- 10) D
- 11) D
- 12) D
- 13) B
- 14) B
- 15) D
- 16) D
- 17) C
- 18) A
- 19) B
- 20) B
- 21) FALSE
- 22) TRUE
- 23) TRUE
- 24) TRUE
- 25) FALSE
- 26) TRUE
- 27) FALSE
- 28) TRUE
- 29) D
- 30) D
- 31) FALSE
- 32) TRUE
- 33) C
- 34) B
- 35) B
- 36) D
- 37) A
- 38) A
- 39) A
- 40) B
- 41) B
- 42) A

Answer Key

Testname: UNTITLED5

43) FALSE

44) FALSE

45) TRUE

46) Depository receipts are negotiable certificates issued by a bank to represent the underlying shares of stock held in trust at a foreign custodian bank. Those receipts traded in the U.S. and denominated in dollars are called American depository receipts (ADR). Because ADRs can be exchanged for the underlying foreign security, arbitrage keeps the prices in line. Even though U.S. investors can invest directly into some foreign equity markets, ADRs do offer some technical advantages. Among those advantages are that dividends are received in dollars rather than a foreign currency, ADRs are in registered form rather than bearer form, transfer of ownership is done in accordance with U.S. laws, and in the event of death, probate is in the U.S. and not abroad. Taxes are easier, trading costs are typically lower, and settlement is also faster.

47) D

48) D

49) D

50) B

51) D

52) TRUE

53) C

54) B

55) D

56) D

57) A

58) C

59) TRUE

60) TRUE

61) The student must give his/her own opinion and supporting background. In either case the following should be noted: Increased disclosure should decrease uncertainty thus increasing stock price. However, increased disclosure requirements result in increased costs in the form of initial preparation of financial statements, on-going costs associated with regular development of financial statements, and the costs of gathering and distributing information about the firm on an on-going basis. As the authors state, disclosure is a two-edged sword.

62) B

63) C

64) D

65) D

66) A

67) A

68) A

69) TRUE

70) TRUE

71) FALSE

72) EMTNs have maturity between the long-lived international bonds and the short-term Euro-commercial paper, thus they have an appealing time horizon to many investors. EMTNs are like international bonds in that they pay periodic interest. The distinguishing features of an EMTN are: They are similar to a shelf registration in that the entire order for the securities does not have to be issued on the same day. Coupon payments are paid continuously, and the relatively small denominations allow for some flexibility in the market.