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

1) Which of the following is NOT true regarding the market for foreign exchange? 1) ______
   A) Foreign exchange transactions are physically completed in the foreign exchange market.
   B) The market provides the physical and institutional structure through which the money of one country is exchanged for another.
   C) The rate of exchange is determined in the market.
   D) All of the above are true.

2) A/An _______ is an agreement between a buyer and seller that a fixed amount of one currency will be delivered at a specified rate for some other currency. 2) ______
   A) Eurodollar transaction
   B) foreign exchange transaction
   C) import/export exchange
   D) interbank market transaction

3) While trading in foreign exchange takes place worldwide, the major currency trading centers are located in: 3) ______
   A) Paris, Frankfurt, and London.
   B) London, New York, and Tokyo.
   C) Los Angeles, New York, and London.
   D) New York, Zurich, and Bahrain.

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

4) Because the market for foreign exchange is worldwide, the volume of foreign exchange currency transactions is level throughout the 24-hour day. 4) ______

5) Business firms in countries with exchange controls, for example, China (mainland), often must surrender foreign exchange earned from exports to the central bank at the daily fixing price. 5) ______

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

6) Define spot, forward, and swap transactions in the foreign exchange market and give an example of how each could be used.

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

7) The _______ is the mechanism by which participants transfer purchasing power between countries, obtain or provide credit for international trade transactions, and minimize exposure to the risks of exchange rate changes. 7) ______
   A) LIBOR
   B) federal open market
   C) futures market
   D) foreign exchange market

8) Which of the following is NOT a motivation identified by the authors as a function of the foreign exchange market? 8) ______

A) obtaining or providing credit for international trade transactions

B) minimizing the risks of exchange rate changes

C) the transfer of purchasing power between countries

D) All of the above were identified as functions of the foreign exchange market.

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

9) Foreign exchange markets are a relatively recent phenomenon, beginning with the agreement at Bretton Woods. 9) ______

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

10) The authors identify two tiers of foreign exchange markets: 10) ______

A) interbank and client markets.

B) bank and nonbank foreign exchange.

C) commercial and investment transactions.

D) client and retail market.

11) It is characteristic of foreign exchange dealers to: 11) ______

A) act as market makers, willing to buy and sell the currencies in which they specialize.

B) bring buyers and sellers of currencies together but never to buy and hold an inventory of currency for resale.

C) trade only with clients in the retail market and never operate in the wholesale market for foreign exchange.

D) All of the above are characteristics of foreign exchange dealers.

12) Which of the following may be participants in the foreign exchange markets? 12) ______

A) bank and nonbank foreign exchange dealers

B) speculators and arbitrageurs

C) central banks and treasuries

D) all of the above

13) ________ seek to profit from trading in the market itself rather than having the foreign exchange transaction being incidental to the execution of a commercial or investment transaction. 13) ______

A) Central banks B) Treasuries

C) Speculators and arbitrageurs D) Foreign exchange brokers

14) In the foreign exchange market, ________ seek all of their profit from exchange rate changes while ________ seek to profit from simultaneous exchange rate differences in different markets. 14) ______

A) dealers; brokers B) wholesalers; retailers

C) speculators; arbitrageurs D) central banks; treasuries

15) Foreign exchange ________ earn a profit by a bid-ask spread on currencies they purchase and sell. Foreign exchange ________, on the other hand, earn a profit by bringing together buyers and sellers of foreign currencies and earning a commission on each sale and purchase. 15) ______

A) central banks; treasuries
B) brokers; dealers
C) dealers; brokers
D) speculators; arbitrageurs

16) ________ are agents who facilitate trading between dealers without themselves becoming principals in the transaction. 16) ______

A) Foreign exchange dealers
B) Central banks
C) Arbitrageurs
D) Foreign exchange brokers

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

17) Dealers in foreign exchange departments at large international banks act as market makers and maintain inventories of the securities in which they specialize. 17) ______

18) Currency trading lacks profitability for large commercial and investment banks but is maintained as a service for corporate and institutional customers. 18) ______

19) The primary motive of foreign exchange activities by most central banks is profit. 19) ______

20) Banks, and a few nonbank foreign exchange dealers, operate ONLY in the interbank markets. 20) ______

21) Dealers in the foreign exchange departments of large international banks often function as "market makers." Such dealers stand willing at all times to buy and sell those currencies in which they specialize and thus maintain an "inventory" position in those currencies. 21) ______

22) Currency trading is a service center rather than a profit center for commercial and investment banks. 22) ______

23) For individuals and firms involved in the import and export of goods and services ,using the foreign exchange market is necessary, but incidental, to their underlying commercial or investment purpose. 23) ______

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

24) What are some of the reasons central banks and treasuries enter the foreign exchange markets, and in what important ways are they different from other foreign exchange participants?

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

25) ________ are NOT one of the three categories reported for foreign exchange. 25) ______

A) Futures transactions
B) Strip transactions
C) Spot transactions
D) Swap transactions

26) The greatest amount of foreign exchange trading takes place in the following three cities: 26) ______

A) New York, London, and Tokyo.
B) London, Tokyo, and Zurich.
C) New York, Singapore, and Zurich.
D) London, Frankfurt, and Paris.

27) The four currencies that constitute about 80% of all foreign exchange trading are: 27) ______

A) U.S. dollar, Japanese yen, euro, and U.K. pound.
B) U.S. dollar, euro, Chinese yuan, and U.K. pound.
C) U.K pound, Chinese yuan, euro, and Japanese yen.
D) U.S. dollar, U.K. pound, yen, and Chinese yuan.

28) A ________ transaction in the foreign exchange market requires an almost immediate delivery (typically within two days) of foreign exchange. 28) ______

A) forward
B) futures
C) spot
D) none of the above

29) A ________ transaction in the foreign exchange market requires delivery of foreign exchange at some future date. 29) ______

A) forward
B) currency
C) spot
D) swap

30) A forward contract to deliver British pounds for U.S. dollars could be described either as ________ or ________. 30) ______

A) buying dollars forward; buying pounds forward
B) selling dollars forward; buying pounds forward
C) selling pounds forward; selling dollars forward
D) selling pounds forward; buying dollars forward

31) A common type of swap transaction in the foreign exchange market is the ________ where the dealer buys the currency in the spot market and sells the same amount back to the same bank in the forward market. 31) ______

A) "spot against forward"
B) "repurchase agreement"
C) "forward against spot"
D) "forspot"

32) The ________ is a derivative forward contract that was created in the 1990s. It has the same characteristics and documentation requirements as traditional forward contracts except that they are only settled in U.S. dollars and the foreign currency involved in the transaction is not delivered. 32) ______

A) virtual forward
B) internet forward
C) dollar only forward
D) nondeliverable forward

33) Which of the following is NOT true regarding nondeliverable forward (NDF) contracts? 33) ______

A) Pricing of NDFs reflects basic interest rate differentials plus an additional premium charged for dollar settlement.
B) NDFs can only be traded by central banks.
C) NDFs are used primarily for emerging market currencies.
D) All of the above are true.

34) A _______ transaction in the interbank market is the simultaneous purchase and sale of a given amount of foreign exchange for two different value dates. 34) _____

A) swap
B) futures
C) forward-forward
D) spot

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

35) A spot transaction in the interbank market for foreign exchange would typically involve a two-day delay in the actual delivery of the currencies, while such a transaction between a bank and its commercial customer would not necessarily involve a two-day wait. 35) _____

36) Swap and forward transactions account for an insignificant portion of the foreign exchange market. 36) _____

37) Nondeliverable Forwards were originally envisioned as a method of currency speculation, but it is now estimated that 70% of NDFs are trading for hedging purposes. 37) _____

38) In general, NDF markets normally develop for country currencies having large cross-border capital movements, but still subject to convertibility restrictions. 38) _____

39) NDFs are traded and settled inside the country of the subject currency, and therefore are within the control of the country's government. 39) _____

40) A contract to deliver dollars for euros in six months is both "buying euros forward for dollars" and "selling dollars forward for euros." 40) _____

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

41) Daily trading volume in the foreign exchange market was about _______ per _______ in 2010. 41) _____

A) $1,000 billion; month
B) $3,200 billion; month
C) $3,200 billion; day
D) $1,000 billion; day

42) The greatest volume of daily foreign exchange transactions are: 42) _____

A) swap transactions.
B) spot transactions.
C) forward transactions.
D) This question is inappropriate because the volume of transactions are approximately equal across the three categories above.

43) The United Kingdom and United States together make up nearly _______ of daily currency trading. 43) _____

A) 55%
B) 45%
C) 25%
D) 35%

44) The top three currency pairs traded with the U.S. dollar are: 44) _____

A) Swiss franc, euro, Japanese yen.

B) U.K. pound, Chinese Yuan, Japanese yen.

C) U.K. pound, euro, Japanese yen.

D) euro, Chinese Yuan, Japanese yen.

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

45) As you might expect, the foreign exchange daily trading volume in in New York City is roughly twice as large as the daily trading volume in London. 45) _____

46) The low level of interest rates around the globe in recent years, combined with slowing economic growth and new debt issuances, has had a dampening impact on the swap market. 46) _____

47) Since the global financial crisis of 2008-2009, the Chinese renminbi (yuan) has become the most widely traded currency with the U.S. dollar surpassing the euro, yen, and pound as dollar trading pairs. 47) _____

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

48) A foreign exchange ________ is the price of one currency expressed in terms of another currency. A foreign exchange ________ is a willingness to buy or sell at the announced rate. 48) _____

A) quote; quote B) quote; rate C) rate; quote D) rate; rate

49) Most foreign exchange transactions are through the U.S. dollar. If the transaction is expressed as the foreign currency per dollar this known as ________ whereas ________ are expressed as dollars per foreign unit. 49) _____

A) American terms; direct

B) European terms; indirect

C) American terms; European terms

D) European terms; American terms

50) The following is an example of an American term foreign exchange quote: 50) _____

A) €0.85/$

B) ¥100/€

C) $20/£

D) none of the above

51) American and British meanings differ for the word billion. Therefore, when traders refer to an American billion, they call it a/an: 51) _____

A) Yard. B) Kiwi. C) Uncle Sam. D) Loony.

52) From the viewpoint of a British investor, which of the following would be a direct quote in the foreign exchange market? 52) _____

A) $1.50/£ B) $0.90/€ C) SF2.40/£ D) £0.55/€

53) A/an ________ quote in the United States would be foreign units per dollar, while a/an ________ quote would be in dollars per foreign currency unit. 53) ______

A) indirect; indirect
B) direct; direct
C) direct; indirect
D) indirect; direct

54) If the direct quote for a U.S. investor for British pounds is $1.43/£, then the indirect quote for the U.S. investor would be ________ and the direct quote for the British investor would be ________. 54) ______

A) £0.699/$; £0.699/$
B) $0.699/£; £0.699/$
C) £0.699/$; $1.43/£
D) £1.43/£; £0.699/$

55) ________ make money on currency exchanges by the difference between the ________ price, or the price they offer to pay, and the ________ price, or the price at which they offer to sell the currency. 55) ______

A) Dealers; bid; ask
B) Brokers; bid; ask
C) Brokers; ask; bid
D) Dealers; ask; bid

TABLE 6.1
Use the table to answer following question(s).

	Yen: Spot and Forward (¥/$)			Pound: Spot and Forward ($/£)		
	Mid Rates	Bid	Ask	Mid Rates	Bid	Ask
Spot	129.87	129.82	129.92	1.4484	1.4481	1.4487
Forward Rates						
1 month	129.68	-20	-18	1.4459	-26	-24
6 months	128.53	-136	-132	1.4327	-160	-154
Swaps						
2 year	117.65	1232	1212	1.4250	-238	-230
3 year	115.50	1452	1422	1.4225	-265	-253

56) Refer to Table 6.1. The current spot rate of dollars per pound as quoted in a newspaper is ________ or ________. 56) ______

A) $1.4481/£; £0.6906/$
B) £1.4487/$; $0.6903/£
C) £1.4484/$; $0.6904/£
D) $1.4484/£; £0.6904/$

57) Refer to Table 6.1. The one-month forward bid price for dollars as denominated in Japanese yen is: 57) ______

A) -¥18.
B) -¥20.
C) ¥129.62/$.
D) ¥129.74/$.

58) Refer to Table 6.1. The ask price for the two-year swap for a British pound is: 58) ______

A) $1.4250/£.
B) -$238.
C) -$230.
D) $1.4257/£.

59) Refer to Table 6.1. According to the information provided in the table, the 6-month yen is selling at a forward ________ of approximately ________ per annum. (Use the mid rates to make your calculations.) 59) ______

A) discount; 2.09%
B) premium; 2.09%
C) premium; 2.06%
D) discount; 2.06%

60) Given the following exchange rates, which of the multiple-choice choices represents a potentially profitable intermarket arbitrage opportunity? 60) _____

¥129.87/$

€1.1226/$

€0.00864/¥

A) $0.8908/€ B) ¥115.69/€ C) $0.0077/¥ D) ¥114.96/€

61) The U.S. dollar suddenly changes in value against the euro moving from an exchange rate of $0.8909/euro to $0.08709/€. Thus, the dollar has ________ by ________. 61) _____

A) appreciated; 2.30%
B) depreciated; 2.24%
C) depreciated; 2.30%
D) appreciated; 2.24%

62) A German firm is attempting to determine the euro/pound exchange rate and has the following exchange rate information: USD/pound = $1.5509/£ and the USD/euro rate = $1.2194/€. Therefore, the euro/pound rate must be: 62) _____

A) €0.7863/£. B) €0.7316/£. C) €1.2719/£. D) £1.2719/€.

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

63) The European and American terms for foreign currency exchange are square roots of one another. 63) _____

64) When the cross rate for currencies offered by two banks differs from the exchange rate offered by a third bank, a triangular arbitrage opportunity exists. 64) _____

65) Most transactions in the interbank foreign exchange trading are primarily conducted via telecommunication techniques and little is conducted face-to-face. 65) _____

66) A confusing "quirk" of international exchange rates occurs when calculating the percentage change in spot rates from one period to another. The percent change in the spot rate from one period to another when quoted using foreign currency terms is always greater than the percent changes quoted when using home currency terms. 66) _____

1) D
2) B
3) B
4) FALSE
5) TRUE
6) Spot transactions are exchanging one currency for another right now. Spot transactions are typically entered into becau parties need to exchange foreign currencies that they have received into their domestic currency, or because they have obligation that requires them to obtain foreign currency.
Forward foreign exchange transactions are agreements entered into today to exchange currencies at a particular price a point in the future. Forwards may be speculative or a hedge against unexpected changes in the price of the other curre Swaps are the simultaneous purchase and sale of a given amount of a foreign exchange for two different dates. Both transactions are conducted with the same counterparty. A swap may be considered a technique for borrowing another currency on a fully collateralized basis.
7) D
8) D
9) FALSE
10) A
11) A
12) D
13) C
14) C
15) C
16) D
17) TRUE
18) FALSE
19) FALSE
20) FALSE
21) TRUE
22) FALSE
23) TRUE
24) Central banks and treasuries enter the foreign exchange market to acquire/spend their own foreign exchange reserves and to influence the price at which their own currency is traded. Unlike other market participants, they are not profit oriented. Instead, they may willingly take a loss if they think it is in their best national interest.
25) B
26) A
27) A
28) C
29) A
30) D
31) A
32) D
33) B
34) A
35) TRUE

36) FALSE
37) FALSE
38) TRUE
39) FALSE
40) TRUE
41) C
42) A
43) A
44) C
45) FALSE
46) TRUE
47) FALSE
48) C
49) D
50) C
51) A
52) D
53) D
54) A
55) A
56) D
57) C
58) D
59) B
60) D
61) A
62) C
63) FALSE
64) TRUE
65) TRUE
66) FALSE