

- Multiple choice questions with 1 correct answer or fill in answer (altogether there will be 25 Multiple choice questions)

1) The key characteristic of FX market is **NOT**:

- A) 24 hours/day operation
- B) over-the-counter market
- C) largest financial market in the world
- D) low liquid market

Answer: D

2) The Fisher Effect decomposes nominal interest rates into the \_\_\_\_\_ and the expected rate of inflation.

- A) expected real exchange rate
- B) expected real interest rate
- C) expected forward rate of return
- D) nominal exchange rate

Answer B

3) The spot price of EUR/USD is 1.09335. The 6M forward rate is quoted with swap points as:

Bid: 80.82 / Ask: 84.82

The forward bid price is ....., and the ask price is ..... (calculate). The 6M EUR/USD forward is quoted at ..... (premium/discount). The interest rate in the USA is ..... (higher/lower) than in Europe.

- Example of the calculation problem:  
(there will be 2 calculation problems, bring calculator with you).

Carla Heinz is a portfolio manager for Deutsche Bank. She is considering two alternative investments of EUR10,000,000: 180-day euro deposits or 180-day Swiss francs (CHF) deposits. She has decided not to bear transaction foreign exchange risk. Suppose she has the following data: 180-day CHF interest rate, 8% p.a., 180-day EUR interest rate, 10% p.a., spot rate EUR1.1960/CHF, 180-day forward rate, EUR1.2024/CHF. Which of these deposits provides the higher euro return in 180 days? If these were actually market prices, what would you expect to happen?

- Essay type of question: (there will be 3 essay questions and you answer only one, according to your preference)

Describe the “Currency Board” FX regime in terms of volatility and predictability.  
What are pros and cons of this regime?