HOCHSCHULE PFORZHEIM **– Faculty of Economics and Law –** **- Mock Examination -**	
Department: Economics	
Subject: International Financial Markets (ISP)	**Semester:**
	Date:
Examinant:	**Prof. Dr. Rainer Maurer**
Time:	**30 Minutes**
Auxiliary Means:	**Non-Programmable Calculator, Dictionary**

Notes:

(1) Please check the number of sheets and questions for completeness. You should find 5 questions and 5 sheets (inclusive this front page).

(2) Please use these sheets to answer the questions. If you need more space, use the back of the preceding page. Should these not be sufficient, use additional sheets and staple them at the end. Please take care for a correct numbering of all additional sheets.

(3) A correct answer yields the number of points noticed in the side column of each question. To pass the examination 50% of all available points have to reached (= 30 points).

(4) Please give complete and comprehensible answers. Illegible answers cannot be accepted.

(5) If you use charts, please take care for a complete labeling.

Name: _____

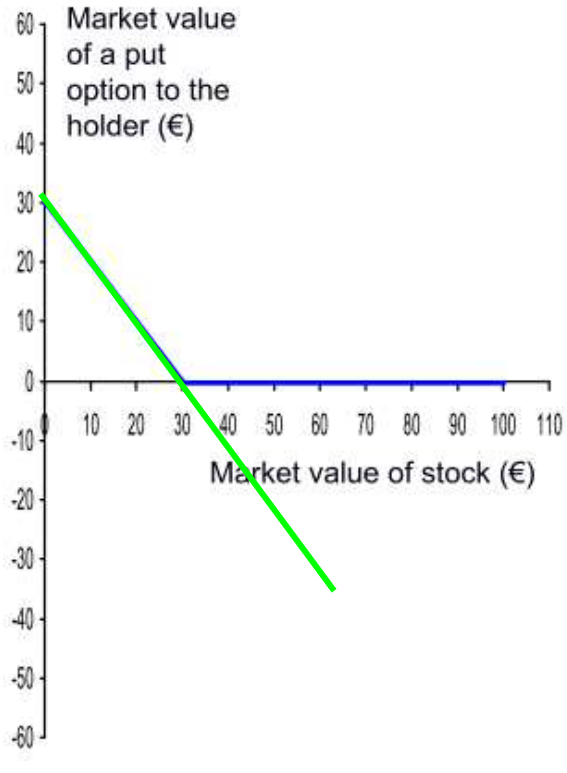
Matriculation-Number: _____

Result: _____

1. How is the Sharpe-Ratio defined and what does it measure? $$\text{Sharpe Ratio} = \frac{\text{Risk Premium}}{\text{Risk}} = \frac{E(i_j) - r_o}{\sqrt{var(i_j)}}$$ *The Sharpe-Ratio measures the compensation per unit of risk, which is paid by an asset or investment opportunity.*	4	
2. Explain the principle of hedging. What properties must assets have to be hedges? What properties of assets exclude a hedging effect? *According to the principle of hedging, the risk of an investment can be lowered, if several assets are held in a portfolio instead of holding a single asset only.* *A necessary condition for two assets to be hedges is that their returns are less than perfectly positively correlated. If two assets are perfectly negatively correlated, the return of one asset goes up when the return of the other asset goes down such that the variance of the portfolio return is zero.* *If two assets display a perfect positive correlation of their returns, there will be no hedging effect.*	5	

3. Given an initial situation where the interest arbitrage equation between the capital market of the Euro area and the capital market of the Dollar area holds. How does an increase of the capital market interest rate by the American central bank affect the spot and/or forward exchange rate between Euro and Dollar, if the capital market interest rate of the Euro area stays constant? *The spot market exchange rate of the Euro depreciates, because investors want to invest money in the Dollar Bonds, with the higher interest rate.* *The forward exchange rate of the Euro appreciates, because investors want to repatriate their investments after the maturity of the bonds expires.*	6	

4. Explain with the help of a diagram, the relationship between the market price of the selling position in a forward contract and the market price of the underlying asset at the date of maturity, if the delivery price is 30 €.	6	



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(Green line only !)

5. What factors affect the risk behind stock dividend payments? *Dividend payments equal:* *Dividend payments =* *Money received from sales* *./. Payments for costs to the suppliers of goods and services and labor* *./. Payments of interest on outside capital* *./. Payment of taxes on profits* *./. Retained Earnings.* *Consequently, all the factors that influence these components influence the volume of dividend payments and hence determine the risk of dividend payments.*	4	
7. A mechanical engineering company has the opportunity to sell a machine worth 19 000 $ with an incoming payment at one month term. Production costs of the machine are 20 000 €. The spot exchange rate equals $e^{\$}_{€} = 1.1$ the forward rate equals $f^{\$}_{€} = 0,91$. Would such a deal be profitable for the company? *Yes: 19 000 $ / 0.91 - 20 000 € = 879,12 €*	5	