

## Warwick Summer School 2024- Exam Questions

**Note: Answer all multiple-choice questions and three questions of your choice from the analytical section. If you answer more than 4 questions, they are not marked.**

### Section of the Multiple Choice Questions (Answer all of them)

- A. What statement is true about the financial institutions working under the title of the *shadow banking system*?**
- a) The central banks fully regulate them and they can accept deposits.
  - b) The central banks do not fully regulate them and they can accept deposits.
  - c) They are partially regulated by the central banks and allowed to accept deposits but can not operate like banks.
  - d) They are partially regulated by the central banks and not allowed to accept deposits or operate like banks.
- B. Which of the following investments will have the highest monetary return at the end of the investment horizon, if the initial investment is £1000? Assume annual compounding.**
- a) 5 years at the interest rate of 5% per year.
  - b) 7 years at the interest rate of 3% per year.
  - c) 2 years at the interest rate of 9% per year.
  - d) 3 years at the interest rate of 6% per year.
- C. The present value of a US treasury bond with a face value of \$1000, a 2% annual return and a maturity date after 5 years of purchasing with the yield to maturity  $r = 2.8\%$  is:**
- a) \$963.14
  - b) \$980.25
  - c) \$1,000.00
  - d) \$1,038.76
- D. Which statement is true?**
- a) Short-term and long-term interest rates always move in parallel.
  - b) If the term structure of interest rates is flat, then the 9-year spot interest rate equals the 10-year spot interest rate.
  - c) Real interest rates and nominal interest rates are always positive values.
  - d) By undertaking an analysis in real terms, the financial manager avoids having to forecast inflation.
- E. Which of these are the benefits of market globalisation?**

- a) Considering the local buyers' needs
- b) Leveling uneven income streams
- c) a) and b)
- d) None of them

**F. The idea that Countries should specialise in the goods they can produce most efficiently and trade for those goods they can't produce,**

- a) is based on the absolute advantage theory
- b) is based on the comparative advantage theory.
- c) is based on the growth theory.
- d) is based on the factor proportions theory.

**G. The risk associated with unanticipated actions by the host country's government or its courts towards a multinational firm is called**

- a) Economic risk
- b) Transaction risk
- c) Political risk
- d) Underestimation risk

**H. All else equal, if an option's exercise price increases, then**

- a) The value of a put option decreases and that of a call option increases.
- b) The value of a put option increases and that of a call option decreases.
- c) The value of both a put option and a call option increases.
- d) The value of both a put option and a call option decreases.

**I. Suppose Carol's stock price is currently £20. In the next six months, it will either fall to £10 or rise to £40. What is the current value of a six-month call option with an exercise price of £12? The six-month risk-free interest rate is 5 percent per six-month period. (Use the risk-neutral valuation method.)**

- a) £13.33
- b) £16.70
- c) £10.28
- d) £9.78

**J. Which statement is not correct?**

- a) WTO tries to strike a balance between national desires for protection and international desires for free trade.
- b) WTO can punish the company that practices a dumping policy against a foreign country.
- c) WTO helps countries to open their markets for trade and serves to settle trade disputes between member countries.
- d) WTO does allow country members to impose anti-dumping duty if they are faced with a dumping policy used by other countries.

**K. What are the instruments of trade promotion?**

- a) Subsidies, foreign trade zones, and special government agencies.
- b) Subsidies, Quotas, and tariffs.
- c) Tariffs, Quotas, and currency control.
- d) Currency control, subsidies, and special government agencies.

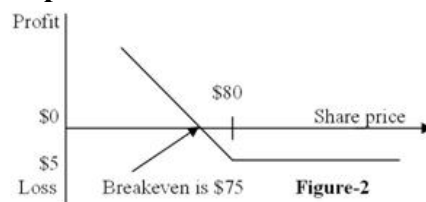
**L. According to the Mercantilist doctrine in international trade, a country can**

- a) Have a permanent positive balance of trade with other countries
- b) Accumulate wealth through importing precious metals
- c) Grow by putting restrictions on imports of goods from rival nations.
- d) All of the above.

**M. Which statement is not true?**

- a) The writer of a put option loses if the stock price declines.
- b) An investor can get downside protection on the purchase of stock by buying a put option.
- c) Payoff (position) diagrams and profit diagrams are identical.
- d) Buying a stock and a put option and lending the present value of the exercise price provide the same payoff as buying a call option.

**N. Figure below depicts the**



- a) position diagram for the buyer of a call option.
- b) profit diagram for the buyer of a call option.
- c) position diagram for the buyer of a put option.
- d) profit diagram for the buyer of a put option.

**O. Suppose an investor sells (writes) a put option. What will happen if the stock price on the exercise date exceeds the exercise price?**

- a) The seller will need to deliver stock to the owner of the option.
- b) The seller will be obliged to buy stock from the owner of the option.
- c) The owner will not exercise the option.
- d) The option will extend for nine more months.

**P. Which of the following is not one of Hofstede's four dimensions of culture?  
Choose all that apply.**

- a) Individualism vs. collectivism
- b) Masculinity vs. femininity
- c) Uncertainty avoidance
- d) Neutral culture vs. emotional culture

**Q. Which ones are Firm-specific assets/ownership advantages? Choose all that apply.**

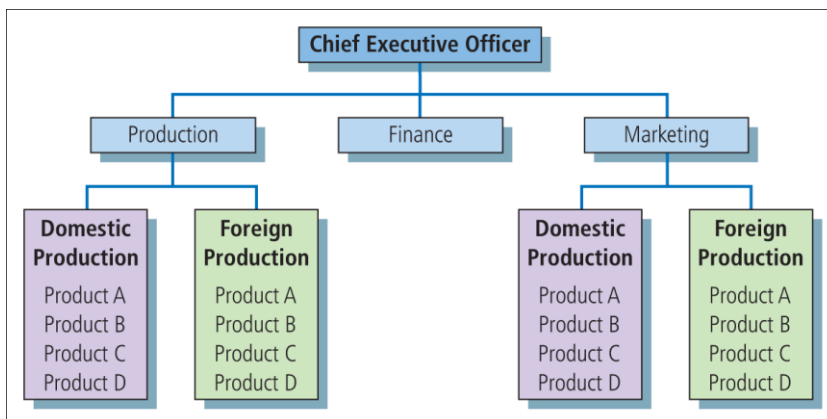
- a) Asset-type
- b) Transaction-type
- c) Recombinant-type
- d) All of the above

**R. In the figure, firms A and B must decide their advertising expenditures simultaneously. They have a choice between three levels of expenditure: low, medium or high. Both firms' payoffs from the advertising campaign depend on their expenditure and the expenditure of the other firm. Find the NASH Equilibrium. Choose all that apply.**

	Y: Low (L)	Y: Medium (M)	Y: High (H)
X: Low (L)	(50, 50)	(40, 55)	(20, 35)
X: Medium (M)	(55, 40)	(60, 60)	(25, 45)
X: High (H)	(35, 20)	(45, 25)	(30, 30)

- a) Medium-Low
- b) Low-Medium
- c) Low-Low
- d) Medium-Medium
- e) High-High

**S. What type of an example of organisational structure is the following figure? Choose all that apply.**



- a) Global product structure
- b) Global area structure
- c) Global functional structure
- d) Matrix structure
- e) Mixed structure

**T. Firms often charge new customers a lower price than existing customers for the same product or service as an ‘introductory offer’ What type of price discrimination is this?**

- a) First-degree price discrimination
- b) Second-degree price discrimination
- c) Third-degree price discrimination
- d) There is no price discrimination in the example since it only refers to an ‘introductory offer’.

## **Section of Analytical Questions**

**1. Explain the following terms. In your explanation compare each term with its previous term, except the first term:**

- i. **Real Assets**
- ii. **Financial Assets**
- iii. **Securities**

**2. It is possible to buy a three-month call and three-month put options on stock Q. Both options have an exercise price of £60 and both are worth £10. If the interest rate is 5% a year, will you buy the stock at the offered price of £55?**

**3. Answer the following questions:**

- i. **What is an option?**
- ii. **How many options are there in the financial markets? Explain them.**
- iii. **Why do we need options in the financial market? Explain your answer.**

**4. Explain**

- i. **In what way do ethnocentrism and misconceptions about other cultures inhibit those doing business internationally?**
- ii. **Why are cultural differences an important factor when adapting products for new overseas markets? Give examples to illustrate your answer.**

**5. Explain:**

- i. **How will an MNE carry out an external environmental assessment? Identify and describe some steps involved in this process.**
- ii. **There are five key variables that MNEs examine in choosing from among alternative organization structures. What are these five? Identify and briefly describe 3 of them.**

**6. Answer the following questions:**

- i. **How many types of market structures there are? Explain the differences between each.**
- ii. **What are Sequential games? Suppose two breakfast cereal producers are both considering a new product launch. They each have a choice of launching one of two products: one product's appeal is 'crunchiness' and the other's appeal is 'fruitiness'. Assume the crunchy cereal is more popular with consumers than the fruity cereal. In the breakfast cereals game with A as the first mover, build the game tree and find the Subgame Perfect Equilibrium (SPE).**

		Firm B's strategies	
		<i>Crunchy</i>	<i>Fruity</i>
Firm A's strategies	<b>Crunchy</b>	3 3	5 4
	<b>Fruity</b>	4 5	2 2