

ch24

Student: _____

1. The extreme growth of the swap market has raised concern about the credit risk exposures of banks engaging in this market.
True False
2. The largest segment of the global swap market is the currency swap market.
True False
3. An interest rate swap is essentially a series of forward contracts on interest rates.
True False
4. In a conventional interest rate swap agreement, the swap buyer agrees to make a number of fixed interest rate payments to the swap seller.
True False
5. In a conventional interest rate swap agreement, the fixed-rate payer is attempting to transform the variable-rate nature of its liabilities into fixed-rate liabilities.
True False
6. A plain vanilla fixed-floating interest rate swap may involve a third party that acts as a broker, but is not likely to have any sophisticated special features.
True False
7. Both parties in an interest rate swap normally are fully hedged against interest rate risk on the notional amount of the swap.
True False
8. One reason for basis risk in an interest rate swap is that changes in the index on the variable rate portion of the swap may not be perfectly correlated with changes in the index on the cash balance sheet portion of the liabilities.
True False
9. The party in a swap that receives fixed-rate payments will always have zero basis risk since the fixed-rate swap payments can be structured to cover the fixed-rate liability payments.
True False
10. Whether fixed-rate or floating-rate, a swap arrangement can be designed to be equivalent to a similar maturity bond.
True False
11. Pricing a fixed-floating rate swap agreement to meet no-arbitrage conditions requires that the expected present value of the cash flow payments made by the fixed-rate seller should equal the expected value of the cash flow payments made by the variable-rate buyer.
True False
12. The on-the-run yield curve of U.S. Treasury securities is the yield curve for outstanding, previously issued securities.
True False
13. Determining the pricing of a swap agreement requires the calculation of expected one- year rates from the Treasury yield curve that is accomplished by calculating the spot or zero-coupon discount yield curve.
True False

14. Once a fixed-floating interest rate swap agreement has been negotiated under no-arbitrage conditions, both parties to the swap agreement know with certainty the exact amount of their respective cash flows.
True False
15. Currency swaps can be designed to reduce foreign exchange risk.
True False
16. The fastest growing group of swaps in recent years has been those designed to help FIs manage interest rate risk.
True False
17. A total return swap involves exchanging an obligation to pay interest at a specified rate for payments representing the total return on a loan or a bond of a specified amount.
True False
18. A pure credit swap is similar to buying credit insurance.
True False
19. In a pure credit swap the FI lender makes a payment each period in exchange for the payment of interest in any period that the borrower defaults on the loan.
True False
20. One reason for the rapid growth of the OTC interest rate and foreign exchange swap markets is that banks are not required to allocate any capital toward their usage.
True False
21. The notational value of swaps that are held by commercial banks as of 2009 was over \$130 trillion.
True False
22. At the end of 2009, the world-wide notational value of swap agreements was less than \$400 trillion.
True False
23. When compared to swap and option contracts, credit risk exposure is greatest with a futures contract.
True False
24. By 2008, the insurance company AIG had more than \$440 billion in credit default swaps outstanding.
True False
25. In recent years, the fastest growing type of swap agreement has been a fixed-fixed currency swap.
True False
26. Credit risk is more likely to lead to failure of an FI than either interest rate or foreign-exchange risk.
True False
27. A total return credit swap eliminates interest rate risk as well as credit risk.
True False
28. A pure credit swap will reduce interest rate risk.
True False
29. A commercial bank that acts as a swap dealer must include swap risk exposure when calculating risk-based capital requirements.
True False
30. The secondary market for the trading of swaps is second in liquidity to the U.S. T-bill market.
True False
31. The credit risk on an interest rate swap is generally much less than on an individual loan.
True False

32. Policies established by The International Swaps and Derivatives Association (ISDA) forbid swap contracts to be made between parties of different credit standing.
True False
33. What is the basic reason that two counterparties enter into a swap agreement?
- A. Exchange of one specified cash flow in the future based on some underlying index.
 - B. Better management of credit risk by using a fixed or floating rate bond as hedging instrument.
 - C. To restructure or off-set the expected future cash flows to be collected from assets or liabilities held on the balance sheet.
 - D. Exchange of assets for a specific period of time at a specified interval.
 - E. Taking the opposite side of each transaction in order to keep the swap market liquid.
34. An interest rate swap
- A. involves a swap buyer who agrees to make a number of variable-rate payments on periodic settlement dates.
 - B. involves a swap seller who agrees to make a number of fixed-rate payments on periodic settlement dates.
 - C. is effectively a succession of forward contracts on interest rates.
 - D. involves comparative advantage by the fixed-rate side of the swap, but not the variable-rate side.
 - E. eliminates credit risk.
35. In terms of valuation, a 12-year interest rate swap can be considered in terms of
- A. a series of option contracts.
 - B. a zero-coupon bond.
 - C. a U.S. Treasury STRIP.
 - D. bond-equivalent valuation.
 - E. securitization of a derivative contract.
36. A bank with a strong positive leverage adjusted duration gap can hedge their exposure to interest rate increases by entering into
- A. a currency swap agreement to receive the fixed rate payment.
 - B. an interest rate swap agreement to make the fixed-rate payment side of the swap.
 - C. a credit swap agreement to receive the floating rate payment.
 - D. a commodity swap agreement to make the fixed-rate payment side of the swap.
 - E. an equity swap agreement to make the floating-rate payment side of the swap.
37. Which of the following is an advantage of having swap dealers?
- A. They serve the function of taking the opposite side of each transaction in order to keep the swap market liquid.
 - B. They reduce the search costs of finding counterparties having mirror image financing requirement.
 - C. They generally guarantee swap payments over the life of the contract.
 - D. They incur any costs associated with the default by replacing the defaulting party on the same terms as the original swap.
 - E. All of the above.
38. A swap used to hedge against exchange rate risk from mismatched currencies on assets and liabilities is
- A. a commodity swap.
 - B. a credit swap.
 - C. a currency swap.
 - D. an equity swap.
 - E. an interest rate swap.
39. The type of swap that is in the largest segment of the global swap market is
- A. a commodity swap.
 - B. a credit swap.
 - C. a currency swap.
 - D. an equity swap.
 - E. an interest rate swap.

40. The fastest growing type of swap is
- A. a commodity swap.
 - B. a credit swap.
 - C. a currency swap.
 - D. an equity swap.
 - E. an interest rate swap.
41. In the derivatives markets, the highest transactions costs are highest for
- A. options.
 - B. futures.
 - C. forwards.
 - D. swaps.
 - E. currencies.
42. In the derivatives markets, the credit risk exposure is greatest for
- A. options.
 - B. futures.
 - C. forwards.
 - D. swaps.
 - E. currencies.
43. In the derivatives markets, the instrument with the longest potential maturity is
- A. options.
 - B. futures.
 - C. forwards.
 - D. swaps.
 - E. currencies.
44. Swapping an obligation to pay interest at a specified fixed or floating rate for payments representing the total return on a loan or a bond of a specified amount is an example of
- A. a commodity swap.
 - B. a credit swap.
 - C. a currency swap.
 - D. an equity swap.
 - E. an interest rate swap.
45. A swap that technically is a succession of forward contracts on interest rates is
- A. a commodity swap.
 - B. a credit swap.
 - C. a currency swap.
 - D. an equity swap.
 - E. an interest rate swap.
46. Which of the following is the primary factor that determines the fixed and floating rates set at the time an interest rate swap is initiated?
- A. Actual market rates that materialized over the life of the swap contract.
 - B. London interbank offer rate.
 - C. Upfront fee payments.
 - D. Market's expectations of future short-term rates.
 - E. Varying notional values underlying the swap.
47. The cash flows that actually are paid on an interest rate swap depend on
- A. the market's expectations of future short-term interest rates.
 - B. upfront fee payments.
 - C. varying notional values underlying the swap.
 - D. special interest rate terms and indexes.
 - E. actual market rates that materialize over the life of the swap contract.

48. A contract that is a fixed-floating interest rate swap with a third party acting as an intermediary is known as
- A. a pure credit swap.
 - B. a total return swap.
 - C. an off-market swap.
 - D. a plain vanilla swap.
 - E. a currency rate swap.
49. A swap that often involves an up-front fee or payment as compensation for nonstandard terms is
- A. a pure credit swap.
 - B. a total return swap.
 - C. an off-market swap.
 - D. a plain vanilla swap.
 - E. an interest rate swap.
50. Which of the following is the primary sellers of credit risk protection?
- A. Insurance companies.
 - B. Mutual funds.
 - C. Depository institutions.
 - D. Vulture funds.
 - E. Commercial banks.
51. By March 2008, the notational value of credit derivative products in the commercial banking industry hit its peak at approximately \$16.44 trillion. In 2009, the notational value of these products was approximately
- A. \$8.9 trillion.
 - B. \$10.6 trillion.
 - C. \$13.4 trillion.
 - D. \$15.7 trillion.
 - E. \$18.1 trillion.
52. The vast majority of credit derivative contracts held by commercial banks consist of credit
- A. forward contracts.
 - B. futures contracts.
 - C. options.
 - D. swaps.
 - E. currency contracts.
53. Swap contracts are actively traded on the
- A. NYSE.
 - B. AMEX.
 - C. CBOE.
 - D. CFTC.
 - E. Swaps are not actively traded.
54. During the most recent financial crisis, the FI segment that was most negatively affected by credit default swaps was
- A. commercial banks.
 - B. insurance companies.
 - C. pension funds.
 - D. finance companies.
 - E. mutual funds.

55. What is the special feature of an off-market swap arrangement?
- It involves special nonstandard considerations that must be negotiated between the parties.
 - The swap is used to hedge against exchange rate risk from mismatched currencies on assets and liabilities.
 - It involves additional financing costs resulting from the fixed-fixed currency swap.
 - It involves an obligation to pay interest at a fixed or floating rate for payments representing the total return on a specified amount.
 - FI receives the par value of the loan on default in return for paying a periodic swap fee.
56. Why were the inverse floaters developed?
- To exchange specified periodic cash flows in the future based on some underlying instrument.
 - To better manage their interest rate, foreign exchange, and credit risks of corporate enterprises.
 - To lower the cost of financing for government agencies.
 - To determine payments and timing of payments when there is no standardized contract.
 - To keep the swap market liquid by locating or matching counterparties.
57. An FI has purchased an agency security that is an inverse floater at 9 percent minus LIBOR. Which of the following characteristics reflect this type of asset?
- If LIBOR is 4 percent, the asset will pay 5 percent to the investor.
 - As LIBOR increases, the investor will receive a lower return on the security.
 - The agency issuing this security may convert it into a LIBOR liability by entering into a swap agreement.
 - If the FI funded the asset at LIBOR, and LIBOR reaches 10 percent, the FI will have a negative 10 percent spread on the asset.
 - All of the above.
58. An FI has entered a \$100 million swap agreement with a counterparty. The fixed-payment portion of the swap is similar to a government bond with maturity of 6 years and duration of 5 years. The swap payment interval is 1 year. If the relative shock to interest rates $[\Delta R/(1+R)]$ is 50 basis points, what will be the change in market value of the swap contract?
- +\$2.0 million.
 - \$2.0 million.
 - +\$2.5 million.
 - \$2.5 million.
 - More information is needed.
59. Consider a situation where the duration of the fixed portion of a swap is greater than the floating portion of a swap. Which of the following statements is most correct?
- The fixed-rate payers gain when rates fall.
 - The market value of fixed-rate payments will decrease by more than the market value of floating-rate payments when interest rates fall.
 - The market value of fixed-rate payments will decrease by more than the market value of floating-rate payments when interest rates rise.
 - The floating-rate payers gain when rates rise.
 - The market value of the swap will increase with an increase in interest rates.
60. A bank has assets of \$500,000,000 and equity of \$40,000,000. The assets have an average duration of 5.5 years, and the liabilities have an average duration of 2.5 years. An 8-year fixed-rate T-bond with the same coupon as the fixed-rate on the swap has a duration of 6 years, and the duration of a floating-rate bond that reprices annually is one year. The bank wishes to hedge its balance sheet with swap contracts that have notional contracts of \$100,000. What is the optimal number of swap contracts into which the bank should enter?
- 2,500 contracts.
 - 2,760 contracts.
 - 13,800 contracts.
 - 3,200 contracts.
 - None of the above.

61. A swap can be effectively hedged against interest rate risk by
- A. selling out to another party.
 - B. entering into another swap agreement that is the mirror image of the original swap.
 - C. setting interest sensitive assets equal to interest sensitive liabilities.
 - D. setting asset duration equal to liability duration.
 - E. defaulting to the swap intermediary.
62. Which of the following is NOT a reason that a swap may have less credit risk than an individual loan?
- A. Netting of payments.
 - B. Payment flows are interest and not principal.
 - C. Standby letters of credit are available.
 - D. Swaps can be cancelled, individual loans cannot.
 - E. None of the above.
63. Swaps create value if
- A. relative prices differ across markets.
 - B. there are barriers to entry in some markets.
 - C. information is costly.
 - D. All of the above.
 - E. None of the above.
64. What kind of interest rate swap (of liabilities) would an FI with a positive funding gap utilize to hedge interest rate risk exposure?
- A. Swap in floating-rate payments for fixed-rate payments.
 - B. Swap in floating-rate receipts for fixed-rate payments.
 - C. Swap in fixed-rate receipts for floating-rate receipts.
 - D. Swap in floating-rate receipts for fixed-rate receipts.
 - E. Swap in floating-rate payments for fixed-rate receipts.
65. It is common to include
- A. both the interest and principal payments in an interest rate swap.
 - B. only the interest payments in a currency swap.
 - C. both the interest and principal payments in a currency swap.
 - D. only the principal payments in an interest rate swap.
 - E. only the principal payments in a currency swap.
66. When a bank enters into a fixed-floating currency swap, it is exposed to
- A. both interest rate and currency exposures.
 - B. only interest rate exposures.
 - C. only exchange rate exposure.
 - D. zero interest rate exposure over the life of the swap.
 - E. zero interest rate and currency exposure over the life of the swap.
67. If a US bank has variable-rate assets in US dollars and fixed-rate liabilities in Euros, the bank is exposed to
- A. interest rate increases and an appreciation of the dollar.
 - B. interest rate declines and an appreciation of the dollar.
 - C. interest rate increases and a depreciation of the dollar.
 - D. interest rate declines and a depreciation of the dollar.
 - E. zero exposure to interest rate and exchange rate exposures.
68. A US bank has fixed-rate assets in US dollars and variable-rate liabilities in Euros. This bank is exposed to
- A. interest rate increases and an appreciation of the dollar.
 - B. interest rate declines and an appreciation of the dollar.
 - C. interest rate increases and a depreciation of the dollar.
 - D. interest rate declines and a depreciation of the dollar.
 - E. zero exposure to interest rate and exchange rate exposures.

69. A pure credit swap
- A. is like buying credit insurance.
 - B. is like buying a multi-period credit option.
 - C. eliminates the interest rate risk contained in a total return swap.
 - D. All of the above.
 - E. None of the above.
70. A total return credit swap
- A can allow an FI to maintain long-term customer lending relationships without bearing the full credit risk exposure from these relationships.
 - B involves exchanging an obligation to pay interest at a specified rate for payments representing the total return on a loan of a specified amount.
 - C. can be important because credit risk is more likely to cause an FI to fail than either interest rate risk or FX risk.
 - D. All of the above.
 - E. Answers A and C only.
71. The credit risk on swaps is considered to be
- A. more than the credit risk on loans.
 - B. less than the credit risk on loans.
 - C. same as the credit risk on loans.
 - D. is negligible compared to the credit risk on loans.
 - E. less likely to cause an FI to fail than is interest rate risk.
72. What is replacement risk in the swap market?
- A. The risk of substituting a defaulted swap with a new swap at less favorable terms.
 - B. The cost incurred by the swap dealer in replacing the defaulting party on the same terms as the original swap.
 - C. The risk involved in exchanging fixed interest payments for floating interest payments by two counterparties.
 - D. The risk associated with long-term hedge sometimes for as long as 15 years.
 - E. The comparative disadvantage faced by swap seller in making variable or floating rate payments.
73. Which of the following is NOT true?
- A. FI bearing the credit risk of a loan is often different from the FI that issued the loan.
 - B. The buyer of a credit swap makes periodic payments to the seller until the end of the life of the swap.
 - C. Banks have been more willing than the insurance companies to bear credit risk.
 - D. The settlement of the swap in the event of a default involves either physical delivery of the bonds or a cash payment.
 - E. Credit swap specifies the number of different bonds that can be delivered in the event of a default.
74. Which of the following is NOT a reason for the credit risk on a swap to be less than the credit risk on a loan?
- A. Swap contracts often extend beyond the maturity of normal loan contracts.
 - B. Swap payments can be netted across more than on loan contract.
 - C. Interest rate swaps involve interest, but not principal.
 - D. Differences in credit quality between parties can be equalized through the use of standby letters of credit.
 - E. All of the above are reasons for swaps to have less credit risk.
75. Which of the following describes the process of "netting" in the swap market?
- A. Stripping out the "interest rate" sensitive element of total return swaps to reduce the net portfolio risk.
 - B. Acting as an intermediary by bringing together two FIs with opposing interest rate risk exposures to enter into a swap agreement.
 - C. Turning fixed-rate liabilities into net variable-rate liabilities.
 - D. Calculating the net difference between the two payments, and making a single payment for the net difference.
 - E. Squaring off contracts on or before expiry.

76. Which of the following is true of the "netting" process in the swap market?
- A. It mitigates the credit risk on swaps.
 - B. Both parties make payments to each other as a consequence.
 - C. It implies that the default exposure of the in-the-money party is the total fixed or floating payment.
 - D. It does not happen across contracts.
 - E. Netting by novation increases the potential risk of loss.
77. When are the standby letters of credit used in swap agreements?
- A. When the counterparty is perceived to be of significantly lower credit quality than the other party.
 - B. Where the swap agreement is made between parties of equal credit standing.
 - C. Where the swap agreement is made between high-quality counterparties.
 - D. When one party posts collateral in lieu of default.
 - E. When the no-arbitrage condition does not hold good.

A thrift has funded 10 percent fixed-rate assets with variable-rate liabilities at LIBOR + 2 (L+2) percent. A bank has funded variable-rate assets with fixed-rate liabilities at 6 percent. The bank's variable-rate assets earn LIBOR + 1 (L+1) percent. The thrift and the bank have reached agreement on an interest-rate swap with the fixed-rate swap payment at 6 percent and the variable-rate swap payment at LIBOR.

78. What will be the net after-swap cost of funds for the thrift if the cash market liabilities are included in the analysis?
- A. Variable-rate at LIBOR.
 - B. Fixed-rate at 8 percent.
 - C. Fixed-rate at 1 percent.
 - D. Fixed-rate at 2 percent.
 - E. None of the above.
79. What will be the net after-swap cost of funds for the bank if the cash market liabilities are included in the analysis?
- A. Variable-rate at LIBOR.
 - B. Fixed-rate at 8 percent.
 - C. Fixed-rate at 1 percent.
 - D. Fixed-rate at 2 percent.
 - E. None of the above.
80. What will be the net after-swap yield on assets for the thrift?
- A. Variable-rate at LIBOR.
 - B. Fixed-rate at 8 percent.
 - C. Fixed-rate at 1 percent.
 - D. Fixed-rate at 2 percent.
 - E. None of the above.
81. What will be the net after-swap yield on assets for the bank?
- A. Variable-rate at LIBOR.
 - B. Fixed-rate at 8 percent.
 - C. Fixed-rate at 1 percent.
 - D. Fixed-rate at 2 percent.
 - E. None of the above.

82. Assume that the swap is for two years and that LIBOR is 5.25 percent in year one and 6.25 percent in year two. What will be the net swap cash flow each year if the notional value of a swap is \$100 million?
- The thrift pays \$0.75 million to the bank in year one and receives \$0.25 million from the bank in year two.
 - The thrift receives \$0.75 million from the bank in year one and pays \$0.25 million to the bank in year two.
 - The thrift pays \$0.25 million to the bank in year one and receives \$0.75 million from the bank in year two.
 - The thrift receives \$0.25 million from the bank in year one and pays \$0.75 million to the bank in year two.
 - None of the above.
83. Assume that the thrift variable-rate liabilities are CDs indexed to some domestic rate. Which of the following statements describes the hedge characteristics of the above example?
- The thrift is exposed to basis risk because the CD rates may not be perfectly correlated with the LIBOR rates.
 - Only the bank is fully hedged.
 - The thrift is exposed to basis risk if the credit/default risk premium on the thrift's CDs increases over time.
 - All of the above.
 - Answers A and C only.

A bank with total assets of \$271 million and equity of \$31 million has a leverage adjusted duration gap of +0.21 years. One-year maturity notes are currently priced at par and are paying 4.5 percent annually. Two-year maturity notes are currently priced at par and are paying 5 percent annually. The terms of a swap of \$100 million notional value of liabilities' payments are 4.95 percent annual fixed payments in exchange for floating rate payments tied to the annual discount yield.

84. What is the forward one-year discount yield expected next year?
- 5.013 percent.
 - 5.530 percent.
 - 4.500 percent.
 - 5.000 percent.
 - 4.950 percent.
85. What are the expected end-of-year profits or losses if the bank hedges its interest rate risk exposure using the swap?
- The bank expects to lose \$0.45 million in the first year and earn \$0.58 million in the second year by buying the swap to hedge against interest rate increases.
 - The bank expects to lose \$0.45 million in the first year and earn \$0.58 million in the second year by selling the swap to hedge against interest rate decreases.
 - The bank expects to earn \$0.45 million in the first year, lose \$0.58 million in the second year by buying the swap to hedge against interest rate increases.
 - The bank expects to earn \$0.45 million in the first year and lose \$0.58 million in the second year by selling the swap to hedge against interest rate decreases.
 - The bank will not do the swap because it has no interest rate risk exposure.

Bank USA has fixed-rate assets of \$50 million funded by fixed-rate liabilities of 75 million Euros paying an interest rate of 10 percent annually. Bank Dresdner has fixed-rate assets of €75 million funded by fixed-rate liabilities of \$50 million paying an interest rate of 10 percent annually. The current exchange rate is €1.50/\$. They agree to swap interest payments on their liabilities to hedge against currency risk exposure for two years.

86. The transaction each year consists of
- A Bank USA swaps a payment of \$5 million per year for Bank Dresdner's payment of €7.5 million to make interest payments on each other's debt.
 - B Bank USA swaps a payment of €6 million per year for Bank Dresdner's payment of \$4 million to make interest payments on each other's debt.
 - C Bank USA swaps a payment of \$6 million per year for Bank Dresdner's payment of €6 million to make interest payments on each other's debt.
 - D Bank USA swaps a payment of €6 million per year for Bank Dresdner's payment of \$6 million to make interest payments on each other's debt.
 - E Bank USA swaps a payment of \$4 million per year for Bank Dresdner's payment of €4 million to make interest payments on each other's debt.
87. At the end of the year, the exchange rate is €2/\$. What are the losses and gains to each bank as a result of this swap compared to the scenario without the swap?
- A. With the agreement, Bank Dresdner pays €2.5 million less while Bank USA pays \$1.25 million more.
 - B. With the agreement, Bank Dresdner pays €2.5 million more while Bank USA pays \$1.25 million less.
 - C. With the agreement, Bank USA pays \$3.75 million less while Bank Dresdner pays €7.5 million more.
 - D. With the agreement, Bank USA pays \$3.75 million more while Bank Dresdner pays €7.5 million less.
 - E. Each bank pays the same because the exchange rate affects both parties equally.
88. At the end of the year 2, the exchange rate is €1/\$. What are the losses and gains to each bank as a result of this swap? Ignore principal payments and compare it to the scenario where it did not engage in the swap.
- A. With the agreement, Bank Dresdner pays €2.5 million less while Bank USA pays \$1.25 more.
 - B. With the agreement, Bank Dresdner pays €2.5 million more while Bank USA pays \$2.5 million less.
 - C. With the agreement, Bank USA pays \$3.75 million less while Bank Dresdner pays €7.5 million more.
 - D. With the agreement, Bank USA pays \$3.75 million more while Bank Dresdner pays €7.5 million less.
 - E. Each bank pays the same because the exchange rate affects both parties equally.

A U.S. bank agrees to a swap of making fixed-rate interest payments of \$12 million to a UK bank in exchange for floating-rate payments of LIBOR + 4 percent in British pounds for a notional amount of ≤100 million. The current exchange rate is \$1.50/£. The interest payments will be exchanged at the end of the year at the prevailing rates.

89. At the end of the year, LIBOR is 4 percent and the exchange rate is \$1.50/£. What is the net payment paid or received in dollars by the U.S. bank?
- A. The U.S. bank paid \$12 million and received \$8 million for a net payment of \$4 million.
 - B. The U.S. bank paid \$12 million and received \$10 million for a net payment of \$2 million.
 - C. The U.S. bank paid \$12 million and received \$12 million for a net receipt of \$0 million.
 - D. The U.S. bank paid \$12 million and received \$14 million for a net receipt of \$2 million.
 - E. The U.S. bank paid \$12 million and received \$16 million for a net receipt of \$4 million.
90. At the end of year 2, LIBOR rates are 6 percent and the exchange rate is \$1.50/£. What is the net payment paid or received in dollars by the U.S. bank?
- A. The U.S. bank paid \$9 million and received \$9 million for a net payment of \$0 million.
 - B. The U.S. bank paid \$9 million and received \$15 million for a net receipt of \$6 million.
 - C. The U.S. bank paid \$12 million and received \$9 million for a net payment of \$3 million.
 - D. The U.S. bank paid \$12 million and received \$12 million for a net payment of \$0 million.
 - E. The U.S. bank paid \$12 million and received \$15 million for a net receipt of \$3 million.

91. At the end of year 3, LIBOR rates are 6 percent and the exchange rate is \$1.10/£. What is the net payment paid or received in dollars by the U.S. bank?
- A. The U.S. bank paid \$12 million and received \$16.5 million for a net receipt of \$4.5 million.
 - B. The U.S. bank paid \$12 million and received \$11 million for a net payment of \$1 million.
 - C. The U.S. bank paid \$12 million and received \$12 million for a net payment of \$0 million.
 - D. The U.S. bank paid \$9 million and received \$11 million for a net receipt of \$2 million.
 - E. The U.S. bank paid \$9 million and received \$12 million for a net receipt of \$3 million.
92. What is the nominal payment paid or received by the U.S. bank over the three year period?
- A. The U.S. bank received \$2 million over the three year period.
 - B. The U.S. bank received \$1 million over the three year period.
 - C. The U.S. bank paid \$0 over the 3 year period.
 - D. The U.S. bank paid \$1 million over the three year period.
 - E. The U.S. bank paid \$2 million over the three year period.

ch24 Key

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

37. E
38. C
39. E
40. B
41. A
42. B
43. D
44. B
45. E
46. D
47. E
48. D
49. C
50. A
51. C
52. D
53. E
54. B
55. A
56. C
57. E
58. B
59. C
60. D
61. B
62. D
63. D
64. A
65. C
66. A
67. D
68. C
69. D
70. D
71. B
72. A
73. C
74. A

- 75. D
- 76. A
- 77. A
- 78. B
- 79. A
- 80. D
- 81. C
- 82. A
- 83. D
- 84. B
- 85. A
- 86. A
- 87. A
- 88. B
- 89. C
- 90. E
- 91. B
- 92. A

ch24 Summary

<u>Category</u>	<u># of Questions</u>
Saunders - Chapter 24	96