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Sample Questions for Final Assessment

*Note: This document contains prototype questions for the final assessment: a short research paper or analysis of a problem/issue. I will expand and elaborate the list in due course. The purpose of the final assessment is not to repeat content presented in the course, but to expand your knowledge of IBFM by undertaking independent research. We will discuss the range of issues at the final lecture to be held 25 October 2022. You may work in groups of two students.*

*The maximum length of the paper is ten pages. Your research should be supported by references to demonstrate the source of your data or cited authorities. A Table of Contents is optional given the brevity of the work. The file name must follow this protocol: "Your Name\_IBFM\_FA\_Date". The final assessment is due 11 November 2022. If you have questions, we can discuss them at the final lecture 25 October 2022.*

*I am in the process of making short videos covering each lecture and providing supplementary material to help you in your final assessments You may find my YouTube channel at*

<https://www.youtube.com/channel/UC6zVehMZA7X89I9LIBnOI8g>.

### *Question One*

- A. What is a documentary credit? [I have defined it in a presentation, but you should consult external references such as the ICC publication UCP 600]
- B. You work for an International Bank in Jakarta. You have a client, an Indonesian importer, who asks you to provide a documentary credit in the amount of \$1 million to back the purchase of goods from a supplier, the exporter, in California.
- C. Assume the DC is issued in electronic form; what terms should it contain? What information must you ask your client to provide?

- D. How does your bank notify the exporter? Assume you use the services of an Advising Bank, what role does the advising bank play in the transaction? Assume alternatively that a bank located in California agrees to serve as both the advising and reimbursing bank, what are the different responsibilities?
- E. What obligations must your bank and/or the reimbursing bank undertake before making payment to the US exporter?
- F. The goods are damaged in transport; your client, the importer, asks you to reimburse the cost attributable to the damage. Must your bank pay? Explain your answer.

### *Question Two*

Your client is a US exporter expecting to receive a €10 million payment from its French customer in six months. The spot rate is virtual parity \$1 for €1. If payment were made today, the exporter would receive in USD 10 million. Your client asks your bank to propose solutions as to how the exporter may protect itself [hedge] against unexpected adverse currency risks between the exchange rate of the currency pair USD/EUR. The exporter is concerned that, in six months' time, the US dollar may fall against the Euro.

What options would you present to the client exporter? Review “currency hedging” and the strategies of a forward exchange rate contract and options. You will need to posit spot and forward rates. You may find published tables of forward rates for EUR/USD such as those found at [www.fxempire.com](http://www.fxempire.com)

Your analysis first must define a forward exchange rate contract and options and then explain how they work. [I amended the PPT “Financial Markets 2” to explain spot and forward rate calculations.

Second, assume your client does not know the exact date of payment. You offer to secure an option with a strike price set at today's spot rate [you select the date]. The premium is 3% of the face value of the contract.

Which choice would you recommend to the client and why? This question requires you to define an option and explain its difference from a forward contract.

### *Question Three*

You work at an international bank. The time is now. The US dollar is surging in value against most major currencies. Your supervisor asks you to prepare a report answering the following questions:

Why is the value of the US dollar strengthening against major currencies when the US economy is beset by problems? Think relative Central Bank interest rates and relative economic factors between the US economy and that of its major trading partners.

Take practical examples: either the € or £ against the value of the \$ and explain what effects a strong \$ has upon importers and exporters in each market, upon the relative prices of goods, and effect upon capital flows seeking higher yields and safety.

### *Question Four*

Explain the concept of “financial intermediation”. What are the reasons supporting the necessity of having financial intermediaries in an economy. [Your research will find conventional explanations]

Does empirical data support the assumption that financial intermediation is essential for placement of idle funds to users that will put these funds to their highest and best use?

There are developments to decentralize finance. You will find results in a simply “google” search”. What is decentralized finance? Can it replace “financial intermediation”? Explain your answer.

Does the existing financial system have anything to do with wealth distribution?

### *Question Five*

A company called “Refinitiv” has published the “Global Syndicated Loans Review” for the first nine months of 21. The publication is extensive and detailed. Your task is to summarize

key data per area and to identify trends in Global syndicated lending. The report is found on my website.

#### Question Six

You work for an international bank that has offices in Africa to serve Low Income Developing Countries [LIDC]. The government of Nigeria has asked your bank to make an international bond distribution in the amount equivalent to \$50 billion.

You must define what is an international bond and whether you will use the Eurobond market [another term to define]. How would you structure the transaction? In what currency and in what jurisdictions would you select for the bond distribution. Without specifying a specific interest rate, how would you analyze the expected interest rate the Nigerian government would have to pay?

I have uploaded a BIS document to assist in your research.

#### Question Seven

The lectures covered cross-border payments in detail [the PPTs are published on my site]. The lectures introduced Ripple and RippleNet, a proposed alternative to the existing payment system that relies upon SWIFT and the interbank correspondent banking system.

Your task is to prepare a short report explaining the alternative payment system offered by Ripple. You may find additional information at <https://ripple.com/> and other sources on the Internet. Your research paper must provide a company profile, a general description of distributed ledger technology, the XRP native currency and its role in the Ripple payment system. Finally, in your view, can Ripple replace SWIFT? Note that Swift is working with Chain Link. See, the article at <https://cointelegraph.com/news/swift-partners-with-chainlink-for-cross-chain-crypto-transfer-project>.