**MSFA AY 2016-2017 Assessment**

***Phase 1: Assessment Plan***

**Learning Outcome assessed:**

**2-3 Integration**  
Derivatives – Valuation: Analyze the sources of value in derivative investments, including forwards, futures, options, and swaps, and demonstrate how derivatives are used to manage risk in the investment process.

**Assessment Method:**

Exam Question, Written Assignment

**Targeted performance, based on rubrics:**

80% of students meet or exceed expectations

**Evaluation Process:**

Exam question with open ended question.

**Rubric:**

Test key

**Course where learning outcome was assessed:**

MSFA 734-42, International Finance

**Evaluator(s):**

John Gonzales

***Phase 2: Results Assessment and Planned Action***

**Results:**

Students were scored on a scale of 1 through 5; with 5 being excellent and 1 being unsatisfactory. NOTE: For assessment purposes, this question was graded separately from the 24 point scale used in grading on the exam.

12 students scored “excellent” and the remaining 6 students scored “very good”. No student scored below average. Thus 100% of students attained a grade better than the Satisfactory level (3 on the scale of 5).

**Suggested Action:**

The results of the assessment show that 100% of the students attained a Very Good or better rating on the question.

Instructor should continue to improve his already successful instructional materials in this area.

***Phase 3: Closing the Loop***

Continue to assess results each year and make adjustments as necessary. At present, this area seems to be working very well.

QUESTION:

A firm has sold some products in UK with a payment of £2,000,000 to be received in three months. The following market quotes are available:

• firm-specific borrowing iUS: 6.20% per year

• firm specific investing iUS: 9.40% per year

• firm-specific borrowing i£: 5.20% per year

• firm specific investing i£: 4.20% per year

• market borrowing and investing iUS: 5.00% per year

• market borrowing and investing i£: 4.20% per year

• spot exchange rate: 1.6250 $/£

• call option, with a strike price of 1.600 $/£, and a premium of 1.82 cents

per £, i.e. $0.0182 per £

• put option, with a strike price of 1.580 $/£, and a premium of 1.12 cents

per £, i.e. $0.0112 per £

Calculate the dollars received with no hedging, a forward contract hedge, a money market hedge, and an options hedge under the following two scenarios. (16 points).

(a) the spot rate of exchange in 3 months is 1.6850 $ per £.

(b) the spot rate of exchange in 3 months is 1.5420 $ per £.

Concerning only the money market hedge and the forward contract hedge, which one would the firm prefer and why does a difference exist? *Explain*. (4 points).

Explain the thinking of the firm in making the decision whether to hedge or not hedge. (4 points).