

## **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

#### **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 732-32, Derivatives II, 48 students

#### **Evaluator(s):**

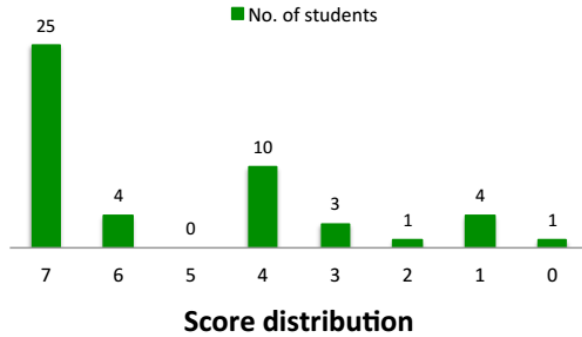
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## Phase 2: Results Assessment and Planned Action

### Results:

#### Results

- Overall assessment: Satisfactory
- Out of 7 points possible, average score was 5.3 and standard deviation was 2.2
- 25 out of 48 received a perfect score of 7
- 9 out of 48 received a score of 3 or less



Target goal is 75% of student will perform at a level of 5/7 or better.

For this class we had  $29/48 = 60\%$ .

This class is on the cusp of attaining the goal for the course as  $39/48$  (81%) students attained 4/7 or better. So close to achieving goal.

### **Suggested Action:**

It is clear that students need to improve by a small amount to attain the program's target percentage in proficiency. The instructor will provide additional online study materials and additional practice questions on assignments to help the students on the margin improve.

We note that a glance at the questions on which these results are based shows that the questions are quite challenging and so we are not unhappy with the results achieved.

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

In future assessment cycles we may break out the LOS into "basic" vs. "advanced" skills in this LOS. This will allow us a better assessment of how students are mastering the skills in this LOS.

Source

Derivatives II Exam (Administered September 27<sup>th</sup> 2016 to a total of 48 students)

## Part I – Question 5

*5) Suppose a growing technology company has two options to fund its overseas operation in Switzerland. The company can borrow funds in the US for 1-year at a fixed rate of 5%, or they can borrow funds in Switzerland for 1-year at a fixed rate of 3%. Either way, the loan will be repaid with cash flows generated by the Swiss entity (denominated in Swiss francs). Assume the loans are structured so that there are no interim coupon payments; full interest is due at the loan expiry date along with principal repayment.*

- a. If the USDCHF spot rate (number of CHF per 1 USD) is 0.9500, what would the 1-year forward need to be such that the firm is indifferent (i.e. equivalent borrowing cost for same currency risk profile) between borrowing funds in the US versus Switzerland? (3pt)*
  - b. Is this an example of covered interest parity (CIP) or uncovered interest parity (UIP)? (1pt)*
  - c. Suppose the 1-year forward rate is 0.9500. Should the firm borrow in US or Swiss francs? Demonstrate why. (3pt)*
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