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 i_{US}: 6.20% per year
- firm specific investing i_{US}: 9.40% per year
- firm-specific borrowing $i_{£}$: 5.20% per year
- firm specific investing $i_{£}$: 4.20% per year
- market borrowing and investing i_{US}: 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).