

IFM Mock Exam

February 2025

Programme: BA Business Management

Module: International Financial Management

Module code: LCBB6002

Contribution to Overall Module Assessment (%): 70%

Internal Verifier:

Examination Duration: 3 Hours

Examination Date & Time: To be confirmed by the assessment office.

Please refer to the assessments schedule published on Students' Hall in Moodle Return date of provisional marks & written feedback: After the Exam Board.

***You must attempt all the questions.**

Section A

1. Which two of the following would likely increase the demand for British Pounds on the foreign exchange market? (2 marks)

- a) Increased aid by the UK government to developing economies
- b) Increased outflows of British Pounds into foreign currency accounts overseas
- c) Increased demand for imports into the UK
- d) Increased demand for exports from the UK
- e) Increased inflows of foreign currencies into British Pounds deposit accounts in the UK

Question 2.

Which two of the following would likely increase the supply of British Pounds on the foreign exchange market? (2 marks)

- a) Increased demand for exports from the UK
- b) Increased demand for imports into the UK
- c) Reduction in aid by the UK government to developing economies
- d) Increased outflows of British Pounds into foreign currency accounts overseas
- e) Increased inflows of foreign currencies into British Pounds deposit accounts in the UK

Question 3.

A fall in the British Pound exchange rate against the Euro would have which two of the following impacts? (2 marks)

- a) UK exports to EU become dearer (in Euros)
- b) UK imports from EU become dearer (in British Pounds)
- c) UK exports to EU become cheaper (in Euros)
- d) UK imports from EU become cheaper (in British Pounds)

Question 4.

A rise in the British Pound exchange rate against the US Dollar would have which two of the following impacts? (2 marks)

- a) UK exports to US become dearer (in US Dollars)

- b) UK exports to US become cheaper (in US Dollars)
- c) UK imports from US become dearer (in British Pounds)
- d) UK imports from US become cheaper (in British Pounds)

Question 5.

Under which two of the following circumstances would the British Pound value of imports from the EU be more likely to increase (other things equal)? (2 marks)

- a) A rise in the British Pound exchange rate with price elasticity of demand for imports from the EU relatively elastic
- b) A rise in the British Pound exchange rate with price elasticity of demand for imports from the EU perfectly elastic
- c) A rise in the British Pound exchange rate with price elasticity of demand for imports from the EU unit elastic
- d) A fall in the British Pound exchange rate against the Euro, with price elasticity of demand for imports from the EU relatively inelastic
- e) A fall in the British Pound exchange rate against the Euro, with price elasticity of demand for imports from the EU perfectly inelastic

Question 6.

Which term refers to an exchange rate that takes into account the weighted average of a country's currency against the currencies of more than two countries? (1 mark)

- a. Depreciation in exchange rate
- b. Appreciation in exchange rate
- c. Effective Exchange Rate (EER)
- d. Nominal Exchange Rate
- e. Real Exchange Rate (RER)
- f. Single Currency

Question 7.

Which of the following exchange rates considers the relative prices of goods and services between the countries being compared? (1 mark)

- a. Appreciation in exchange rate
- b. Depreciation in exchange rate
- c. Nominal Exchange Rate
- d. Effective Exchange Rate (EER)
- e. Real Exchange Rate (RER)
- f. Single Currency

Question 8.

Answer the following five questions either 'True' or 'False'.

A rise in the US Dollar exchange rate will reduce the Dollar value of imports by more, the greater the price elasticity of demand for those imports. (1 mark)

True

False

Question 9.

A rise in the US Dollar exchange rate will make US exports cheaper abroad and imports dearer at home (1 mark)

True

False

Question 10.

If the Effective Exchange Rate between the US Dollar and three other currencies decreases, but this is completely counterbalanced by an increase in the prices of US goods compared to the countries in question, the real exchange rate will remain the same. (1 mark)

True

False

End of section A – Total Section Mark 15

Section B

Question:

1. If the current spot rate between the British Pound and US Dollar is \$1.25 and the expected spot rate one year from now is \$1.20, what is the percentage depreciation of the British Pound? **(5marks)**
2. Assume that the UK inflation rate becomes high relative to US inflation. Other things being equal, how should this affect the (a) UK demand for US Dollars, (b) supply of US Dollars for foreign currency, and (c) equilibrium value of the US Dollars? **(5 marks)**
3. Assume US interest rates fall relative to Euro interest rates. Other things being equal, how should this affect the (a) US demand for Euros, (b) supply of Euros for sale, and (c) equilibrium value of the Euros? **(5 marks)**

4. Assume that the income level in the UK rises at a much higher rate than does the US income level. Other things being equal, how should this affect the (a) UK demand for US Dollars, (b) supply of US Dollars for sale, and (c) equilibrium value of the US Dollars in terms of British Pounds? **(5 marks)**
5. Assume that the US government relaxes its controls on imports by US companies. Other things being equal, how should this affect the (a) UK demand for US Dollar, (b) supply of US Dollar for sale, and (c) equilibrium value of the US Dollar? **(5 marks)**
6. What is the expected relationship between the relative real interest rates of the US and the UK and the exchange rate of their currencies? **(5 marks)**
7. Explain why a public forecast about the future value of the British Pounds and about future interest rates by a respected economist could affect the value of the British Pound today. Why do some forecasts by well-respected economists have no impact on today's value of the British Pound? **(5 marks)**
8. Analysts often link currency appreciation to expectations of stronger economic conditions. However, when other factors remain unchanged, an increase in national income might lead to higher imports, potentially weakening the local currency. Given that other factors are not constant, what additional factor is likely to be influenced by economic growth and could drive the local currency's value higher? **(5 marks)**
9. How would a decline in economic growth, inflation, and interest rates in African countries impact the value of their currencies relative to the US Dollar? **(5 marks)**
10. How might weaker economic conditions impact trade flows in a developing country? In addition, how could these conditions influence the value of its currency, assuming other factors remain unchanged? What effect would you expect on interest rates in this scenario? **(5 marks)**

11. A firm has a mix of capital structure as follows:

The mix of capital components in use:

Component	£000	%	Costs
Debt	£60,000		5%
Preferred Stock	£10,000		7%
Equity	£30,000		10%
Total Capital	£100,000		

Tax Rate is 25%

Calculate the percentage of each component of the mix of the firm's capital structure, follow by an estimation of cost of capital. **(5 marks)**

End of section B – Total Section Mark 55

Section C

Question 1:

A firm is contemplating of investing in one of two capital projects but the Senior Management of the firm are not sure which of the two projects would be economically viable to invest on.

Task: Calculate the NPV of the following two projects and suggest which of the two projects the firm should accept, assuming the discount rate is 10%. **(30 Marks)**

	Project X	Project Y
Initial investment	£40,000	£60000
Estimated Life	5 Years	5 Years
Scrap value	£2000	£4000

Cash flows:

Year	1	2	3	4	5
Project X	£10000	£20000	£20000	£6000	£4000
Project Y	£40000	£20000	£10000	£6000	£4000

Year	1	2	3	4	5
Discounted at 10%	0.909	0.826	0.751	0.683	0.621

*Please note that the FV cash flows has been discounted to PV $(1/1.10)^n$

End of section C – Total Section Mark 30