

UNIVERSITI SAINS MALAYSIA

Second Semester Examination
Academic Session 2004/2005

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SEU331E - International Finance
[Kewangan Antarabangsa]

Duration: 3 hours

Instructions/Arahan

1. Please check that this examination paper consists of EIGHT pages of printed material before you begin the examination.

Sila pastikan bahawa kertas peperiksaan in mengandungi LAPAN muka surat yang bercetak sebelum anda memulakan peperiksaan ini.

2. Answer **ALL** questions in Section A and choose any **TWO (2)** questions from Section B. Each question carries 100 marks.

*Jawab **SEMUA** soalan dalam Bahagian A dan pilih mana-mana **DUA (2)** soalan dari Bahagian B. Setiap soalan bernilai 100 markah.*

Section A/Bahagian A

Answer **ALL** questions in this section.

Jawab **SEMUA** soalan dalam bahagian ini.

Question 1/Soalan 1

- (a) Explain how (i) an expansionary monetary policy and (ii) an expansionary fiscal policy affects the balance of payments of a country under a fixed exchange rate regime.

Jelaskan bagaimana (i) dasar kewangan mengembang dan (ii) dasar fiskal mengembang mempengaruhiimbangan pembayaran sesebuah negara di bawah rejim kadar pertukaran tetap.

- (b) How does (i) perfect capital mobility and (ii) capital controls affect the effectiveness of monetary and fiscal policies under fixed exchange rates?

Bagaimana (i) mobiliti modal yang sempurna dan (ii) kawalan modal mempengaruhi keberkesanan dasar kewangan dan dasar fiskal di bawah kadar pertukaran tetap.

- (c) Suppose the Malaysian economy is facing rapid inflation and a surplus in its overall balance of payments and the ringgit is pegged to the U.S. dollar. Suggest the appropriate mix of expenditure-changing policies, expenditure switching policies, and other policies needed to achieve both internal and external balance. Explain how such policies can cure the problems faced by the country.

Katakan ekonomi Malaysia menghadapi inflasi yang tinggi dan lebihan dalamimbangan pembayaran keseluruhan dan ringgit ditambat kepada dolar Amerika Syarikat. Sarankan gabungan dasar mengubah perbelanjaan, dasar mengalihkan perbelanjaan dan dasar-dasar lain yang bersesuaian yang diperlukan untuk mencapaiimbangan dalam negeri danimbangan luar. Jelaskan bagaimana dasar-dasar berkenaan dapat menyelesaikan masalah yang dihadapi oleh negara ini.

- (d) Suppose the Malaysian economy is hit by an external shock. What kind of intervention is needed to defend the fixed exchange rate system for (i) a capital outflow shock and (ii) a shift away from the country's export products? How does this intervention affect the domestic economy?

Katakan ekonomi Malaysia mengalami suatu kejutan luaran. Apakah jenis campur tangan yang diperlukan untuk menyokong sistem kadar pertukaran tetap bagi (i) kejutan aliran keluar modal dan (ii) peralihan dari produk eksport negara ini? Bagaimanakah campur tangan ini mempengaruhi ekonomi dalam negeri?

Question 2/Soalan 2

- (a) What is an international financial crisis? Identify the major financial crises in developing countries during the 1990s. Explain the two main causes of these crises.

Apakah krisis kewangan antarabangsa? Kenal pasti krisis kewangan utama di negara-negara membangun pada tahun 1990an. Jelaskan dua punca utama krisis ini.

- (b) Why are such crises associated with severe recessions in the affected countries?

Mengapakah krisis-krisis ini dikaitkan dengan kemelesetan yang teruk di negara-negara yang terjejas?

- (c) What type of exchange rate regime is associated with a higher probability of experiencing an international financial crisis? Why?

Apakah jenis rejim kadar pertukaran yang dikaitkan dengan kebarangkalian yang lebih tinggi untuk mengalami krisis kewangan antarabangsa? Mengapa?

- (d) Briefly explain what is meant by the term 'policy trilemma' for open economies. Given this policy trilemma, explain how the Malaysian government responded to the Asian currency crisis.

Secara ringkas terangkan apa maksud trilemma dasar bagi ekonomi terbuka. Diberi trilemma dasar ini, jelaskan bagaimana kerajaan Malaysia bertindak balas terhadap krisis mata wang Asia.

- (e) What can countries do to minimize the probability of being hit by a severe international financial crisis in the future?

Apakah yang boleh dilakukan oleh negara-negara untuk mengurangkan kebarangkalian dilanda krisis kewangan antarabangsa yang teruk pada masa depan?

Section B/Bahagian B

Answer any **TWO (2)** questions only from this section.

Jawab mana-mana DUA (2) soalan sahaja dari bahagian ini.

Question 3/Soalan 3

- (a) A major decision for a country's government is its choice of exchange rate system. Briefly discuss the key issues that can influence a country's choice between a floating and fixed exchange rate regime.

Satu keputusan utama oleh kerajaan sesebuah negara ialah pilihan sistem kadar pertukaran. Secara ringkas bincangkan isu-isu utama yang boleh mempengaruhi pemilihan di antara rejim kadar pertukaran apungan dan tetap oleh sesebuah negara.

- (b) In recent decades countries have shifted toward more flexible exchange rates. How does a managed float operate? Why have the major industrialized countries adopted it?

Pada dekad-dekad kebelakangan ini negara-negara telah berganjak ke arah kadar pertukaran yang lebih fleksibel. Bagaimanakah apungan terus beroperasi? Mengapakah negara-negara perindustrian utama mengamalkannya?

- (c) Why do some small nations adopt a currency basket peg while others choose to peg their currencies to a single currency?

Mengapakah sesetengah negara kecil mengamalkan pancangan kepada suatu raga mata wang sementara yang lain memilih untuk memancang mata wang mereka kepada matawang tunggal?

- (d) How does a crawling-peg exchange rate system operate? Why have some nations adopted this system?

Bagaimanakah sistem kadar pertukaran pancang merangkak beroperasi? Mengapakah sesetengah negara mengamalkan sistem ini?

- (e) What is a currency board? What is dollarization? Why do some countries adopt currency boards while others dollarize their monetary system?

Apakah satu lembaga mata wang? Apakah dolarisasi? Mengapakah sesetengah negara menggunakan lembaga matawang sementara yang lain mendolarisasikan sistem kewangan mereka?

- (f) What is the present exchange rate system of Malaysia? Is it sustainable given the current world economic conditions? Give reasons.

Apakah sistem kadar pertukaran yang kini diguna pakai di Malaysia? Adakah ia boleh dipertahankan diberi keadaan ekonomi dunia semasa? Beri sebab-sebab.

- (g) If the Malaysian ringgit is undervalued with respect to the U.S dollar what will be the likely impact on Malaysia's trade balance? What if the ringgit is overvalued?

Sekiranya ringgit Malaysia terkurang nilai berbanding dolar Amerika Syarikat apakah impak yang mungkin ke atasimbangan dagangan Malaysia? Bagaimana pula sekiranya ringgit terlebih nilai?

Question 4/Soalan 4

- (a) What are the main characteristics of a good international monetary system?

Apakah ciri-ciri utama sebuah sistem kewangan antarabangsa yang baik?

- (b) Discuss the major problems with the present international monetary system. What are your proposals for reforming and strengthening it?

Bincangkan masalah-masalah utama dengan sistem kewangan antarabangsa yang ada sekarang. Apakah cadangan anda untuk mereformasikan dan mengukuhkannya?

- (c) Briefly explain the operation of the European Monetary Union. What are its benefits?

Secara ringkas jelaskan operasi Kesatuan Kewangan Eropah. Apakah kebaikan-kebaikannya?

- (d) The United States of America has been running a current account deficit in its balance of payments since 1982. What are the causes of the deficit? Is it sustainable?

Amerika Syarikat mengalami defisit dalam akaun semasaimbangan pembayarannya sejak 1982. Apakah punca-punca defisit ini? Bolehkah defisit ini dipertahankan?

- (e) Briefly discuss the effects of a weakening U.S. dollar on the world economy.

Secara ringkas bincangkan kesan kelemahan dolar Amerika Syarikat ke atas ekonomi dunia.

Question 5/Soalan 5

- (a) List the factors affecting a currency's exchange value in a free market. State how each factor could affect the yen-dollar exchange rate under a system of market-determined exchange rates.

Senaraikan faktor-faktor yang mempengaruhi nilai tukaran suatu mata wang di pasaran bebas. Nyatakan bagaimana setiap faktor mempengaruhi kadar tukaran yen-dolar di bawah sistem kadar pertukaran yang ditentukan oleh kuasa pasaran.

- (b) Briefly explain the primary determinants of exchange rates based on the different approaches to exchange rate determination. What are the major predictions concerning exchange rate movements in the long run or short run according to each of these approaches?

Secara ringkas jelaskan penentu-penentu utama kadar pertukaran berdasarkan pendekatan-pendekatan utama penentuan kadar pertukaran. Apakah ramalan utama berkenaan pergerakan kadar pertukaran dalam jangka panjang atau jangka pendek menurut setiap pendekatan ini?

- (c) What is meant by exchange rate overshooting? Why does it occur? Suppose the Federal Reserve unexpectedly lowers the United States' money supply. In a world of exchange rate overshooting, what would happen to the pound/dollar spot rate, pound/dollar forward rate, interest rates in the United States, and the price level in the United States change in response? Draw graphs representing the expected time paths.

Apakah yang dimaksudkan dengan lonjakan kadar pertukaran? Mengapakah ia berlaku? Andaikan Federal Reserve secara tiba-tiba mengurangkan bekalan wang Amerika Syarikat. Dalam dunia di mana lonjakan kadar pertukaran boleh berlaku, apakah yang akan berlaku pada kadar pertukaran semerta pound/dolar, kadar pertukaran hadapan pound/dolar, kadar faedah di Amerika Syarikat dan tingkat harga di Amerika Syarikat sebagai tindak balas? Lakarkan graf untuk mewakili laluan masa yang dijangkakan.

- (d) Suppose you are a currency forecaster. How would you predict future changes in exchange rates of major currencies?

Andaikan anda adalah seorang peramal mata wang. Bagaimanakah anda akan meramalkan perubahan kadar pertukaran mata wang-mata wang utama pada masa depan?

Question 6/Soalan 6

- (a) Briefly differentiate between hedging, speculation, currency arbitrage and interest arbitrage in the foreign exchange market.

Secara ringkas bezakan di antara lindung nilai, spekulasi, arbitraj mata wang dan arbitraj bunga di pasaran pertukaran asing.

- (b) If a Malaysian importer's import bills are invoiced in euros, illustrate how the Malaysian importer can hedge his foreign exchange risks in (i) the forward market and (ii) the options market.

Sekiranya bil import seorang pengimport Malaysia diinvois dalam euro, tunjukkan bagaimana pengimport Malaysia tersebut boleh melindungi nilai risiko kadar pertukarannya di (i) pasaran hadapan dan (ii) pasaran opsyen.

- (c) Explain how a speculator can use the spot and forward markets to carry out speculative activity if he expects the euro to appreciate in value against the dollar in the near future.

Jelakan bagaimana seorang spekulator boleh menggunakan pasaran semerta dan pasaran hadapan untuk menjalankan aktiviti spekulasi jika dia menjangkakan euro akan naik nilai terhadap ringgit pada masa depan.

- (d) Differentiate between uncovered and covered interest arbitrage. Illustrate how an investor can reap profits from covered interest arbitrage.

Bezakan di antara arbitraj bunga tak terlindung dan terlindung. Tunjukkan bagaimana seorang pelabur boleh mengaut keuntungan dari arbitraj bunga terlindung.

- (e) What is the difference between uncovered and covered interest parity?

Apakah perbezaan di antara pariti bunga tak terlindung dan terlindung?

Question 7/Soalan 7

- (a) There are three major approaches to analyze the economic impact of a currency devaluation/depreciation. Distinguish among the three approaches.

Ada tiga pendekatan utama untuk menganalisis kesan ekonomi daripada penurunan nilai/penyusutan nilai mata wang. Bezakan di antara ketiga-tiga pendekatan ini.

- (b) What are the requirements for a devaluation to improve the balance of payments according to each of the three approaches?

Apakah syarat-syarat yang diperlukan untuk penurunan nilai menambah baikkan defisit imbalan pembayaran menurut setiap daripada tiga pendekatan tersebut?

- (c) Under what conditions would a devaluation fail to correct a balance of payments deficit according to each of the three approaches?

Dalam keadaan yang macam manakah penurunan nilai mata wang gagal membetulkan defisit dalam imbalan pembayaran menurut setiap daripada tiga pendekatan tersebut?

- (d) Briefly state the effects of a devaluation on the devaluing country's economy.

Secara ringkas nyatakan kesan-kesan penurunan nilai mata wang ke atas ekonomi negara yang menurunkan nilai matawangnya.

- (e) What is the J-curve effect? Explain.

Apakah kesan keluk J? Jelaskan.

- (f) What are the implications of a currency pass-through for a nation whose currency depreciates or is devalued?

Apakah implikasi kesan resapan mata wang ke atas sebuah negara yang matawangnya menyusut nilai atau diturunkan nilai?