

Take Home Midterm Exam

FIN 319
Winter 2000

University of Michigan
Business School

Maximum total score is 100, plus 10 extra for a bonus question. The maximum score for each question is in brackets.

Question 1. [35, 7 points each] Choose ONLY 5!! out of 10. [No extra credit for doing more]. Define the concepts:

1.1 What is better: monopolistic regulator or perfectly competitive regulator? Define and Discuss.

1.2 Tests of Market Efficiency: define and discuss the difference between weak form and semi-strong form.

1.3 PCM (Perfect Capital Market), define and give a real life example where only one violation of PCM matters.

1.4 Covered and uncovered interest rate parity, discuss the difference.

1.5 Absolute and relative PPP, discuss the difference.

1.6 Define NRB (net regulatory burden). What is bigger NRB or the regulatory burden?

1.7 Who are arbitrators, which make regulators more competitive?

1.8 Is it possible that fully anticipated government intervention is successful?

1.9 Give an example of Central Bank policy instrument, which in the case of its successful application always results in conflicting newspaper commentaries.

1.10 STT, define and comment whether STT will be implemented in the next 5 years.

Question 2 [25: 5 points each] True or false questions; Support your answer with 1 - 2 explanatory sentence(s).

2.1 Bribery and perfect competition cannot be simultaneous, if PCM hypothesis holds

2.2 It is a fact that bribery exists in US. Firm's (bank's, corporation's) gross legal expenses on defense against government legal charges are higher than their expected gain from bribery.

2.3 It is a fact that bribery exists in US. firms (banks, corporations) gross legal expenses on defense against government legal charges are lower than their expected gain from bribery.

2.4 Conversion rates (see URL:

<http://europa.eu.int/euro/html/dossiers/00232/html/index-EN.html>) will remain constant for at least one week.

2.5 See URL <http://europa.eu.int/euro/html/page-dossier5.html?lang=5&dossier=296&page=1&nav=5> for the document from 06/27/00 titled "*The Euro Trophies are extended until the 15th of October 2000.*" This document contains the following statement:

"Because the changeover to the euro is, for many SMEs, a long-term project, the organizers have decided to extend the calendar until the 15th of October 2000 in order to facilitate the participation of a maximum number of SMEs." This statement does not reflect the true purpose of the extension.

Question 3 [15] Disclosure rules, enforcement:

A. See the article ``*Chinese fund managers made illicit deals in sauna meetings*," from Financial Times, 10/18/2000. Please, comment whether sauna is just irrelevant or not and why? What role does it play, if you think that it is relevant?

B. Why all the payments between these managers are in cash only? [5pt]

Question 4 [20] Market globalization, capital market competitiveness & efficiency.

COMPANIES & MARKETS: Europe starts to 'get it' GLOBAL INVESTOR By PHILIP COGGAN, Financial Times, Oct 9, 2000. See URL

<http://globalarchive.ft.com/globalarchive/articles.html?print=true&id=001009000729>

Please, comment on the economic reasons behind this trend.

Question 5. Bonus [10] Find an article in Wall Street Journal, New York Times or Financial Times, which contains author's statements, which you can disprove, using the knowledge that you acquired in Fin 319. Please, include this article or its URL with your answers.

Question 6. Alternative Bonus [10]

A. Use Prof. Rudy Dornbusch editorial "*The Misaligned Euro*" and comment on whether euro can be sliding further down, and how far, if so. The speech URL is <http://web.mit.edu/rudi/www/PDFs/MisalignedEuro.pdf>

B. Use a www currency converter of your choice. E-mail me on **Wednesday, 04.04.01**

I. its URL, and

II. your best bet about euro to dollar (or dollar to euro) exchange rate in two weeks (i.e. on **Wednesday, 04.18.01**) at the same converter. The student whose estimate would be the closest to the real exchange rate value in two weeks from now gets a grade A for this exam. [To calculate whose estimate is the closest one, I will compare your estimate with the rate quoted by your converter on Wednesday, 04.18.01.]

Have fun!