Multinational Financial Management

1. Stover Corporation, a U.S. based importer, makes a purchase of crystal glassware from a firm in Switzerland for 39,960 Swiss francs, or $24,000, at the spot rate of 1.665 francs per dollar. The terms of the purchase are net 90 days, and the U.S. firm wants to cover this trade payable with a forward market hedge to eliminate its exchange rate risk. Suppose the firm completes a forward hedge at the 90-day forward rate of 1.682 francs. If the spot rate in 90 days is actually 1.638 francs, how much will the U.S. firm have saved or lost in U.S. dollars by hedging its exchange rate exposure?

a. -$396

b. -$243

c. $0

d. $243

e. $638

2. Chen Transport, a U.S. based company, is considering expanding its operations into a foreign country. The required investment at Time = 0 is $10 million. The firm forecasts total cash inflows of $4 million per year for 2 years, $6 million for the next 2 years, and then a possible terminal value of $8 million. In addition, due to political risk factors, Chen believes that there is a 50% chance that the gross terminal value will be only $2 million and a 50% chance that it will be $8 million. However, the government of the host country will block 20% of all cash flows. Thus, cash flows that can be repatriated are 80% of those projected. Chen's cost of capital is 15%, but it adds one percentage point to all foreign projects to account for exchange rate risk. Under these conditions, what is the project’s NPV?

a. $1.01 million

b. $2.77 million

c. $3.09 million

d. $5.96 million

e. $7.39 million