Question #1 of 22

Question ID: 1573116

If the spot exchange rate between the British pound and the U.S. dollar is GBP/USD 0.7775, and the spot exchange rate between the Canadian dollar and the British pound is CAD/GBP 1.8325, what is the USD/CAD spot cross exchange rate?

A) 0.42428.

B) 1.42477.

C) 0.70186.

Explanation

First, convert GBP/USD 0.7775 to 1/0.7775 = USD/GBP 1.28617.

Then, divide USD/GBP 1.28617 by CAD/GBP 1.8325 = USD/CAD 0.70187.

(Module 19.1, LOS 19.a)

Question #2 of 22

Question ID: 1573131

Spot and one-month forward exchange rates are as follows:

	Spot	1-month forward
EUR/DEF	2.5675	2.5925
EUR/GHI	4.3250	4.2800
EUR/JKL	7.0625	7.0075

Based on these exchange rates, the EUR is *closest* to a 1-month forward:

A) discount of 1% to the JKL.

B) premium of 1% to the DEF.

C) premium of 1% to the GHI.

Explanation

The EUR is at a forward premium to the GHI because the EUR/GHI forward rate is less than the EUR/GHI spot rate. The base currency, GHI, is at a forward discount of forward/spot – 1 = 4.2800 / 4.3250 – 1 = –1.04%. The EUR is at a forward discount to the DEF and a forward premium to the JKL.

(Module 19.1, LOS 19.b)

Question #3 of 22

Question ID: 1573132

The USD/EUR spot exchange rate is 1.3500 and 6-month forward points are −75. The 6-month forward exchange rate is:

A) 1.3425, and the USD is at a forward discount.

B) 1.3425, and the USD is at a forward premium.

C) 1.3575, and the USD is at a forward discount.

Explanation

For an exchange rate quoted to four decimal places, each forward point represents 0.0001. The 6-month forward exchange rate is 1.3500 − 0.0075 = 1.3425 USD/EUR. The USD is expected to appreciate against the EUR and is trading at a forward premium.

(Module 19.1, LOS 19.b)

Question #4 of 22

Question ID: 1573126

If the current spot exchange rate for quotes of JPY/GBP is greater than the no-arbitrage 3-month forward exchange rate, the 3-month GBP interest rate is:

A) equal to the 3-month JPY interest rate.

B) greater than the 3-month JPY interest rate.

C) less than the 3-month JPY interest rate.

Explanation

$\frac{\text{forward}_{\text{JPY/GBP}}}{\text{spot}_{\text{JPY/GBP}}} = \frac{(1 + \text{interest rate}_{\text{JPY}})}{(1 + \text{interest rate}_{\text{GBP}})}$. If the no-arbitrage forward JPY/GBP rate is less than the spot rate, the interest rate for JPY must be less than the interest rate for GBP.

(Module 19.1, LOS 19.b)

Question #5 of 22

Question ID: 1573111

The exchange rate of the Athelstan riyal (ATH) with the British pound is 9.00 ATH/GBP. The exchange rate of the Mordred ducat (MOR) with the U.S. dollar is 2.00 MOR/USD. If the USD/GBP exchange rate is 1.50, the ATH/MOR cross rate is *closest to*:

A) 12.00 ATH/MOR. ✗

B) 3.00 ATH/MOR. ✓

C) 6.75 ATH/MOR. ✗

Explanation

The ATH/MOR cross rate = 9.00 ATH/GBP × (1 / 1.50) GBP/USD × (1 / 2.00) USD/MOR = 3.00 ATH/MOR.

(Module 19.1, LOS 19.a)

Question #6 of 22

Question ID: 1573120

The spot exchange rate is 0.6243 USD/GBP and the 1-year forward rate is quoted as 3.016%. The 1-year forward exchange rate for USD/GBP is *closest to*:

A) 0.6054. ✗

B) 0.6431. ✓

C) 0.6544. ✗

Explanation

The one year forward rate is 0.6243 × (1 + 0.03016) = 0.6431.

(Module 19.1, LOS 19.b)

Question #7 of 22

Question ID: 1573113

Given the following quotes, GBP/USD 2.0000 and MXN/USD 8.0000, calculate the direct MXN/GBP spot cross exchange rate.

A) 0.6250.

B) 4.0000.

C) 0.2500.

Explanation

Invert the first quote to read USD/GBP 0.5000. Then, 0.5000 × 8.0000 = 4.0000 MXN/GBP.

(Module 19.1, LOS 19.a)

Question #8 of 22

Question ID: 1573118

Assume the exchange rate between the Trotter (TRT) and the Roeckl (RKL) is 5.50 TRT/RKL and the exchange rate between the Roeckl and the Passage (PSG) is 8.00 RKL/PSG. The cross rate between the PSG and the TRT is *closest* to:

A) 0.0227 PSG/TRT.

B) 44.00 PSG/TRT.

C) 0.6875 PSG/TRT.

Explanation

The TRT/PSG cross rate is 5.5 × 8.0 = 44 TRT/PSG. Because the answer choices are quoted as PSG/TRT, we need to invert this result: 1 / 44 = 0.0227 PSG/TRT. (Module 19.1, LOS 19.a)

Question #9 of 22

Question ID: 1573117

The Japanese yen is trading at JPY/USD 115.2200 and the Danish krone (DKK) is trading at JPY/DKK 16.4989. The USD/DKK exchange rate is:

A) 0.1432.

B) 6.9835.

C) 0.5260.

Explanation

The cross rate between USD and DKK is calculated in the following manner:

(USD/JPY)(JPY/DKK) = (1 / 115.2200) × 16.4989 = USD/DKK 0.1432 (the Yen cancels out)

(Module 19.1, LOS 19.a)

Question #10 of 22

Question ID: 1573124

The spot exchange rate between the U.S. dollar and the euro is 1.2749 USD/EUR. The 90-day forward exchange rate is quoted as +12.4 points. The forward exchange rate is *closest* to:

A) 1.2761 USD/EUR.

B) 1.3989 USD/EUR.

C) 1.4329 USD/EUR.

Explanation

Each "point" is 0.0001. Thus, +12.4 points would add 0.00124 to the spot exchange rate: 1.2749 + 0.00124 = 1.27614. (Module 19.1, LOS 19.b)

Question #11 of 22

Question ID: 1573129

When forward currency exchange-rate contracts are available, the difference between the spot and forward exchange rates for a pair of currencies is *most likely* to reflect the difference between the two countries':

A) economic growth rates.

B) risk-free interest rates.

C) annual inflation rates.

Explanation

Investing the domestic currency at the domestic interest rate should earn the same return as buying a foreign currency at the spot exchange rate, investing at the foreign interest rate, and selling the foreign currency proceeds at the forward exchange rate. If both currencies trade freely and participants can enter forward contracts, arbitrage trading will cause the percentage difference between the forward and spot exchange rates to be approximately equal to the difference between interest rates in the two countries. (Module 19.1, LOS 19.b)

Question #12 of 22

Question ID: 1573130

The spot exchange rate for Canadian dollars (CAD) per Swiss franc (CHF) is 1.1350 CAD/CHF and the 12-month forward exchange rate is 1.1460 CAD/CHF. The forward quote is a:

A) discount of 110 points and the CAD is at a forward discount to the CHF. ✗

B) premium of 11 points and the CAD is at a forward premium to the CHF. ✗

C) premium of 110 points and the CAD is at a forward discount to the CHF. ✓

Explanation

Because the forward CAD/CHF exchange rate is higher than the spot rate, the quote is a forward premium. Forward points represent 0.0001 for an exchange rate quoted to four decimal places. Here, the forward discount is 1460 − 1350 = 110 points. The base currency, the CHF, is at a forward premium to the CAD, therefore the CAD is at a forward discount to the CHF.

(Module 19.1, LOS 19.b)

Question #13 of 22

Question ID: 1573121

The spot exchange rate is 1.1132 GBP/EUR and the 1-year forward rate is quoted as +1349 points. The 1-year forward exchange rate for GBP/EUR is *closest to*:

A) 1.1267. ✗

B) 1.2481. ✓

C) 1.2634. ✗

Explanation

The one year forward is 1.1132 + (1349/10,000) = 1.2481.

(Module 19.1, LOS 19.b)

Question #14 of 22

Question ID: 1573127

Country G and Country H have currencies that trade freely and have markets for forward currency contracts. If Country G has an interest rate greater than that of Country H, the no-arbitrage forward G/H exchange rate is:

A) equal to the G/H spot rate.

B) greater than the G/H spot rate.

C) less than the G/H spot rate.

Explanation

$\frac{\text{forward}}{\text{spot}} = \frac{(1 + \text{interest rate}_{\text{Country G}})}{(1 + \text{interest rate}_{\text{Country H}})}$. If the interest rate in Country G is greater than the interest rate in Country H, the numerator is greater than the denominator on the right side of the equation. The left side must have the same relationship, so the forward rate must be greater than the spot rate.

(Module 19.1, LOS 19.b)

Question #15 of 22

Question ID: 1573119

The spot exchange rate for CHF/EUR is 0.8342 and the 1-year forward quotation is −0.353%. The 1-year forward exchange rate for EUR/CHF is *closest to*:

A) 1.2022.

B) 0.8313.

C) 1.2029.

Explanation

The forward rate for CHF/EUR is 0.8342 × (1 − 0.00353) = 0.8313. The 1-year forward EUR/CHF exchange rate is 1 / 0.8313 = 1.2030.

(Module 19.1, LOS 19.b)

Question #16 of 22

Question ID: 1573122

If the AUD/CAD spot exchange rate is 0.9875 and 60-day forward points are −25, the 60-day AUD/CAD forward rate is *closest to*:

A) 0.9900. ✗

B) 0.9850. ✓

C) 1.0125. ✗

Explanation

For an exchange rate quoted to four decimal places, forward points are expressed in units of 0.0001. The 60-day forward rate is 0.9875 + 0.0001(−25) = 0.9850.

(Module 19.1, LOS 19.b)

Question #17 of 22

Question ID: 1573128

The three-month interest rate in the currency MNO is 4% and the three-month interest rate for the currency PQR is 5%. Based only on this information, the three-month forward MNO/PQR exchange rate:

A) is greater than spot MNO/PQR. ✗

B) may be greater than or less than spot MNO/PQR. ✗

C) is less than spot MNO/PQR. ✓

Explanation

Based on the no-arbitrage relationship between spot rates, forward rates, and interest rates, if the interest rate for the base currency is greater than the interest rate for the price currency, the forward exchange rate is less than the spot exchange rate. (Module 19.1, LOS 19.b)

Question #18 of 22

Question ID: 1573114

An analyst observes that one U.S. dollar is worth eight Mexican pesos (MXN) or six Polish zlotys (PLN). The value of one PLN in terms of MXN is *closest* to:

A) 0.7500. ✗

B) 7.0000.

C) 1.3333.

Explanation

For the Level I CFA exam, we quote foreign exchange rates as units of the price currency per one unit of the base currency. Here we are given MXN/USD = 8 and PLN/USD = 6, and we are asked to calculate MXN/PLN.

The cross rate MXN/PLN = MXN/USD × USD/PLN, which equals 8 × 1/6 = 1.3333.

(Module 19.1, LOS 19.a)

Question #19 of 22

Question ID: 1573112

Given an exchange rate of USD/CAD 0.9250 and USD/CHF 1.6250, what is the cross rate for CAD/CHF?

A) 0.5692.

B) 1.5032.

C) 1.7568.

Explanation

(USD/CHF 1.6250) / (USD/CAD 0.9250) = CAD/CHF 1.7568

(Module 19.1, LOS 19.a)

Question #20 of 22

Question ID: 1573125

If the no-arbitrage forward exchange rate for a euro in Japanese yen is less than the spot rate, then the interest rate in:

A) Japan is less than in the Eurozone.

B) Japan is the same as in the Eurozone.

C) the Eurozone is less than in Japan.

Explanation

If the quote is in terms of JPY per EUR, this implies that the JPY is expected to appreciate relative to the EUR. There will be no arbitrage opportunity only if the interest rate in Japan is lower than the interest rate in the Eurozone.

(Module 19.1, LOS 19.b)

Question #21 of 22

Question ID: 1573115

If the exchange rate between the U.S. dollar and the Canadian dollar is USD/CAD 0.6403, and the exchange rate between the Canadian dollar and the UK pound sterling is CAD/GBP 2.5207, the exchange rate between the U.S. dollar and the UK pound sterling, stated as GBP/USD, is *closest* to:

A) 1.6140. ✗

B) 3.9367. ✗

C) 0.6196. ✓

Explanation

For currency cross rate calculations, the recommended approach is to set up the given rates such that cross-multiplying will result in the exchange rate the question is asking for. In this case, GBP/USD = GBP/CAD × CAD/USD.

GBP/CAD = 1 / 2.5207 = 0.3967

CAD/USD = 1 / 0.6403 = 1.5618

GBP/USD = 0.3967 × 1.5618 = 0.6196

Alternatively, USD/CAD 0.6403 × CAD/GBP 2.5207 = USD/GBP 1.6140, and GBP/USD = 1 / 1.6140 = 0.6196.

(Module 19.1, LOS 19.a)

Question #22 of 22

Question ID: 1573123

The spot CHF/EUR exchange rate is 1.2025. If the 90-day forward quotation is +0.25%, the 90-day forward rate is *closest to*:

A) 1.2000. ✗

B) 1.2050. ✗

C) 1.2055. ✓

Explanation

The 90-day forward CHF/EUR exchange rate is 1.2025 × 1.0025 = 1.20551. The EUR is at a forward premium to the CHF.

(Module 19.1, LOS 19.b)