**UNIVERSITI UTARA MALAYSIA**

**PEPERIKSAAN**
**SEMESTER JULAI SESI 1996/97**

<table>
<thead>
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<th>KOD/NAMA KURSUS</th>
<th>EG3183: PELABURAN ANTARABANGSA</th>
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<td>TARIKH</td>
<td>26 OKTOBER 1996 (SABTU)</td>
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<tr>
<td>MASA</td>
<td>2.30 - 5.00 PTG. (2 1/2 JAM)</td>
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<td>TEMPAT</td>
<td>PUSAT KONVENSYEN</td>
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**ARAHAN:**

Attempt all questions.

Please read the questions carefully. Please kindly be as concise as possible while attempting your answers.

Thank you.

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**NO. MATRIK:**

(dengan perkataan)  
(dengan angka)

**NO. KAD PENGENALAN:**

**NAMA PENSYARAH:**

KUMPULAN:

**JANGAN BUKA SOALAN INI SEHINGGA DIBERI ARAHAN**

130
1. Traditional weak-form tests of market efficiency look for autocorrelation of successive daily or weekly stock returns. Assume that you look at stock returns of a specific company and find that returns over two successive weeks have a correlation of 0.2. What would you do to attempt to benefit from this finding?

(10 Marks)
You consider investing in four very volatile emerging markets. These are small countries just opening up to foreign investment. You spread your money equally across them. After a year, the following observations are made on the performance of each market:

<table>
<thead>
<tr>
<th>Country</th>
<th>Return in local currency</th>
<th>Currency depreciation</th>
<th>Comment</th>
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<tbody>
<tr>
<td>A</td>
<td>400%</td>
<td>20%</td>
<td>High inflation, high growth</td>
</tr>
<tr>
<td>B</td>
<td>60%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>0%</td>
<td>40%</td>
<td>High inflation, low growth</td>
</tr>
<tr>
<td>D</td>
<td>-100%</td>
<td>80%</td>
<td>Foreigners got expropriated</td>
</tr>
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a) Calculate the return, in dollars, on each market. The currency depreciation is equal to the drop in the dollar value of one unit of local currency. For example, if the peso moves from 1 dollar per peso to 0.8 dollar per peso, the depreciation of the peso is measured as 20%. (8 Marks)

b) What is the return on a portfolio equally invested in each market? (7 Marks)
3. Thailand limits foreign ownership of Thai companies to a maximum percentage of all the shares issued (see, for example, the article by Bailey and Jagtiani, 1994). The limit is generally 50% but can be lower for some industries or firms. Once a company has reached this limit, it starts to be traded on two different boards. Foreigners must trade on the Alien Board, but Thai investors still trade in the same share on the Main Board. Main and Alien Board shares are identical in all other respects.

a) How does this segmentation ensure that the limit on foreign ownership is respected? (7 Marks)

b) Shares listed on the Alien Board trade at a fairly large premium over their Main Board counterparts. Give some likely explanations. (8 Marks)
4. The value of the U.S dollar went down after 1985. How did it affect the geographical breakdown of the world market capitalization?

(12 Marks)
5. The best diversification vehicle is an asset with high volatility and low correlation with portfolio. What do you think of this statement?

(10 Marks)
Let's consider a utopian world in which there are only three goods:

- Japanese consume only a locally produced food, called sake, and an industrially produced and traded good, called TV sets.

- Americans consume only a locally produced food, called beer, and an industrially produced and traded good, called TV sets.

TV sets are produced in both countries and actively traded; their local prices follow the law of one price. Foods are produced only locally and are not traded.

The consumption basket of a Japanese consists of two thirds sake and one third TV sets. The consumption basket of an American consists of one half beer and one half TV sets. Prices of beer and TV sets in the United States are constant over time, in U.S. dollars. Japanese are very competitive and export a lot of TV sets. Japanese farmers want to share in the increased national wealth, and the price of sake is rising at a rate of 10% per year, in yen. Assume that the yen/dollar exchange rate stays constant.

a) What is the consumer price index inflation in Japan? (8 Marks)

b) Is PPP verified? Should it be verified? (6 Marks)
Here are some statements heard recently at a conference for institutional investors:

(A German national): “My money manager knows the German firms very well; why should I bother to invest in French and American shares? I am not familiar with their names or their operations, and I will have to pay much higher costs to buy them.”

(A French national): “Why should I buy German and American shares? The foreign brokers will give preferential treatments to their domestic clients, and I am going to get a lousy deal in terms of prices and costs. Furthermore, I cannot read the financial statements of these companies, as they are written in German or English, and with different accounting methods.”

(An American national): “I cannot even pronounce the names of these foreign companies; how could I defend investing abroad in front of my board of trustees? By the way, what is the capital of Switzerland: Geneva or Zurich?”

How would you try to convince these people if you were the marketing representative of a big international money manager?

(12 Marks)
8. Two bond indexes of the same market tend to give the similar total return indications even if their composition is quite different. Why?

(12 Marks)