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Active Income Income which results from production or services provided by an individual or corporation.

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Adjusted Present Value (APV) A present value technique which discounts a firm's cash flows at different rates depending on the risk of the cash flows.

Agency Market A market in which the broker takes the client's order through the agent, who matches it with another public order.

Agency Problem Managers who are hired as the agents working for shareholders may actually pursue their own interests at the expense of shareholders, causing conflicts of interest. Agency problems are especially acute for firms with diffused share ownership.

All-Equity Cost of Capital The required return on a company's stock in the absence of debts.

All-in-Cost All costs of a swap, which are interest expense, transaction cost, and service charges.

American Depository Receipt (ADR) A certificate of ownership issued by a U.S. bank representing a multiple of foreign shares that are deposited in a U.S. bank. ADRs can be traded on the organized exchanges in the U.S. or in the OTC market.

American Option An option which can be exercised at any time during the option contract.

Appreciate In the context of a domestic currency, a decrease (an increase) in a foreign exchange rate relative to another currency when stated in terms of the domestic (foreign) currency.

Arbitrage The act of simultaneously buying and selling the same or equivalent assets or commodities for the purpose of making certain, guaranteed profits.

decrease) in a foreign exchange rate relative to another at (seasone)

when stated in terms of the domestic (lemonar) entirency.

Ask Price See Offer Price.

- Constant

Balance of Payments A country's record of international transactions presented in a double-entry bookkeeping form.

Balance Sheet Hedge Intended to reduce translation exposure of a MNC by eliminating the mismatch of exposed net assets and exposed net liabilities denominated in the same currency.

Bank Capital Adequacy The amount of equity capital and other securities a bank holds as reserves against risky assets to reduce the probability of a bank failure.

Banker's Acceptance (B/A) A negotiable money market instrument for which a secondary market exists and is issued by the Importer's Bank once the bill of lading and time draft are accepted. It is essentially a promise that the bank will pay the draft when it matures.

Basle Accord Established in 1988 by the Bank for International Settlements, this act established a framework to measure bank capital adequacy for banks in the Group of Ten and Luxembourg.

Bearer Bond A bond in which ownership is demonstrated through possession of the bond.

Country exchange as it is seen to be sometiment of the country as a succession of the country as a succession of the country o

Bid Price The price at which dealers will buy a financial asset.

Bilateral Netting A system in which a pair of affiliates determines the net amount due between them and only this amount is transferred.

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TOTAL STREET

Bill of Lading (B/L) In exporting, a document issued by a common carrier specifying that it has received goods for shipment and which can also serve as title to the goods.

Bimetallism A double standard maintaining free coinage for both gold and silver.

Brady Bonds Loans converted into collateralized bonds with a reduced interest rate devised to resolve the international debt crisis in the late 1980s. Named after the U.S. Treasury Secretary Nicholas Brady.

Bretton Woods System An international monetary system created in 1944 to promote postwar exchange rate stability and coordinate international monetary policies. Otherwise known as the gold-exchange system.

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Cadbury Code The Cadbury Committee appointed by the British government issued the Code of Best Practice in corporate governance for British companies, recommending, among other things, appointing at least three outside board directors and having the positions of CEO and board chairman held by two different individuals.

Call Market A market in which market and limit orders are accumulated and executed at specific intervals during the day.

Call Option An option to "buy" an underlying asset at a specified price.

Capital Account Balance-of-payment entry capturing all sales and purchases of financial assets, real estate, and businesses.

Capital-Export Neutrality The idea that an ideal tax is one which is effective in raising revenue for the government and, at the same time, does not prevent economic resources from being deployed most efficiently no matter where in the world the highest return can be earned.

Capital-Import Neutrality The idea that an ideal tax burden imposed by a host country on a foreign subsidiary of a MNC should be the same regardless of which country the MNC is incorporated in and should be the same burden as placed on domestic firms.

Cash Budget In cash management, a plan which details the time and size of expected receipts and disbursements.

Cash Management The handling of cash within a firm such as the investment a firm has in transaction balances, funds tied up in precautionary cash balances, investment of excess funds at the most favorable rate, and borrowing at the lowest rate when there is a temporary cash shortage.

Central Cash Depository In a MNC, it is a central cash pool in which excess cash from affiliates is collected and invested or used to cover system-wide shortages of cash.

Closed-End Country Fund (CECF) A country fund (fund invested exclusively in the securities of one country) which

- issues a given number of shares that are traded on the host country exchange as if it were an individual stock. These shares are not redeemable at the underlying net asset value set in the home market.
- Comparative Advantage David Ricardo used the notion of comparative advantage to justify international trade. Specifically, if countries specialize production in those industries where they can produce goods and services more efficiently (in relative terms) than other countries, and engage in trade, all countries will be better off.
- Competitive Effect Refers to the effect of exchange rate changes on the firm's competitive position, which, in turn, affects the firm's operating cash flows.
- Complete Contract Refers to the contract that specifies exactly what each party will do under all possible future contingencies. evinger of bagivab atta fastadul baarbat
- Concessionary Loan A loan below the market interest rate offered by the host country to a parent MNC to encourage capital expenditures in the host country.
- Contingent Claim Security See Derivative Security.
- Contingent Exposure The risk due to uncertain situations in which a firm does not know if it will face exchange risk exposure in the future.
- Continuous Market A market in which market and limit orders can be executed any time during business hours.
- Controlled Foreign Corporation (CFC) A foreign subsidiary in which U.S. shareholders own more than 50 percent of the voting equity stock.
- Conversion Effect Refers to the fact that the dollar amount converted from a given cash flow from foreign operation will be affected by exchange rate changes.
- Convertible Bond A bond which can be exchanged for a predetermined number of equity shares of the issuer.
- Corporate Governance The economic, legal, and institutional framework in which corporate control and cash flow rights are distributed among shareholders, managers, and other stakeholders of the company.
- Counterparty One of the two parties involved in financial contracts who agrees to exchange cash flows on particular terms.
- Countertrade Transactions in which parties exchange goods or services. If these transactions do not involve an exchange of money, they are a type of barter.
- Country Risk In banking and investment, it is the probability that unexpected events in a country will influence its ability to repay loans and repatriate dividends. It includes political and credit risks.
- Covered Interest Arbitrage A situation which occurs when IRP does not hold, thereby allowing certain arbitrage profits to be made without the arbitrageur investing any money out of pocket or bearing any risk.
- Cross Exchange Rate An exchange rate between a currency pair where neither currency is the U.S. dollar.
- Cross-Currency Interest Rate Swap Typically called a "currency swap." One counterparty exchanges the debt service obligations of a bond denominated in one currency for the debt service obligations of the other counterparty that are denominated in another currency.
- Cross-hedging Involves hedging a position in one asset by taking a position in another asset.

- Cross-Listing The act of directly listing securities on foreign financial exchanges. Cross-listing will require meeting the listing and disclosure standards of foreign exchanges.
- Cumulative Translation Adjustment (CTA) Used in the current rate method of translating foreign currency financial statements, this equity account allows balancing of the balance sheet by accounting for translation gains and losses.
- Currency Board An extreme form of the fixed exchange rate regime under which local currency is fully backed by the U.S. dollar or another chosen standard currency.
- Currency Futures A standardized foreign exchange contract with a future delivery date that is traded on organized exchanges.
- Currency Swap One counter party exchanges the debt service obligations of a bond denominated in one currency for the debt service obligations of the other counter party denominated in another currency.
- Current Account Balance-of-payment entry representing the exports and imports of goods and services, and unilateral transfer.
- Current/Noncurrent Method In dealing with foreign currency translation, the idea that current assets and liabilities are converted at the current exchange rate while noncurrent assets and liabilities are translated at the historical exchange rates.
- Current Rate Method In dealing with foreign currency translation, the idea that all balance sheet accounts are translated at the current exchange rate except stockholder's equity, which is translated at the exchange rate on the date of issuance. omic vine is been sended of the desired moistons. Hollow incidence

Apprendent, a decrease full the concern, a decrease fun Dealer Market A market in which the broker takes the trade through the dealer, who participates in trades as a principal.

THE STREET CASE SECTION

- Debt-for-Equity Swap The sale of sovereign debt for U.S. dollars to investors desiring to make equity investment in the . Zifferen bestättige die 190 bestätett indebted nation.
- Depreciate In the context of a domestic currency, an increase (a decrease) in a foreign exchange rate relative to another currency when stated in terms of the domestic (foreign) currency.
- Derivative Security A security whose value is contingent upon the value of the underlying security. Examples are futures, forward, and options contracts.
- Direct Tax A tax paid directly by the taxpayer on whom the tax is levied.
- Diversification of the Market A strategy for managing operating exposure in which a firm diversifies the market for its product. Thus, exchange rate changes in one country may be offset by opposite exchange rate changes in another.
- Draft A written order instructing the importer or his agent to pay the amount specified on its face at a certain date.
- Dual Currency Bond A straight fixed-rate bond which pays coupon interest in the issue currency, but at maturity pays the principal in a currency other than the issue currency.

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Economic Exposure The possibility that cash flows and the value of the firm may be affected by unanticipated changes in the exchange rates. Light of the fichagoester rightening

Edge Act Bank Federally chartered subsidiaries of U.S. banks which may engage in the full range of international banking operations. These banks are located in the United States.

Efficient Market Hypothesis Hypothesis stating that financial markets are informationally efficient in that the current asset prices reflect all the relevant and available information.

Elasticity of Demand A measure of the sensitivity of demand for a product with respect to its price.

EURIBOR The rate at which interbank deposits of the euro are offered by one prime bank to another in countries that make up the EMU as well as prime banks in non-EMU EU countries and major prime banks in non-EU countries.

Euro The common European currency introduced in 1999 of the 11 countries of the EU that make up the EMU.

Eurobond A bond issue denominated in a particular currency but sold to investors in national capital markets other than the issuing country.

Eurocurrency A time deposit of money in an international bank located in a country other than the country which issues the currency.

European Central Bank (ECB) The central bank of the 11 countries that make up the EMU, responsible for maintaining price stability via monetary policy.

European Currency Unit (ECU) A basket currency made up of a weighted average of the currencies of the 12 members of the European Union. The precursor of the euro.

European Monetary System (EMS) Replaced the snake in 1979. A system to establish monetary stability in Europe and promote European economic and political unification.

European Monetary Union (EMU) The monetary union of 11 countries of the EU that irrevocably fixed their exchange rates and use the common euro currency.

European Option An option which can be exercised only at the maturity date of the contract.

European Union (EU) A regional economic integration in Western Europe, currently with 15 member states, in which all barriers to the free flow of goods, capital, and people have been removed. EU plans to complete economic unification including a single currency.

Exchange Rate Mechanism (ERM) The procedure, prior to the introduction of the euro, by which EMS member countries collectively manage their exchange rates based on a parity grid system, a system of par values between ERM countries.

Exchange Rate Pass-through The relationship between exchange rate changes and the price adjustments of internationally traded goods.

Exercise Price The prespecified price paid or received when an option is exercised.

Export-Import Bank (Eximbank) of the United States Chartered in 1945, it is an independent government agency which facilitates and finances U.S. export trade by financing exports in situations where private financial institutions are unable or unwilling to provide financing.

Exposure Coefficient The coefficient obtained from regressing the home currency value of assets on the foreign exchange rate under consideration. This provides a measure of the firm's economic exposure to currency risk.

Exposure Netting Hedging only the net exposure by firms which have both payables and receivables in foreign currencies.

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international trade. The GAIT played a key role in reducting

Financial Hedges Refers to hedging exchange risk exposure using financial contracts such as currency forward and options contracts.

Fisher Effect Theory stating that the nominal interest rate is the sum of the real interest rate and the expected inflation rate.

Flexible Sourcing Policy A strategy for managing operating exposure that involves sourcing from areas where input costs are low.

Floating Rate Note Medium-term bonds which have their coupon payments indexed to a reference rate such as the three-month U.S. dollar LIBOR.

Foreign Bond Refers to a bond offered by a foreign borrower to the investors in a national capital market and denominated in that nation's currency. Example: An American company selling yen-denominated bonds in Japan to local investors.

Foreign Branch An overseas affiliate of a MNC which is not an independently incorporated firm but is rather an extension of the parent.

Foreign Direct Investment (FDI) Investment in a foreign country that gives the MNC a measure of control.

Foreign Exchange Markets Encompass the conversion of purchasing power from one currency into another, bank deposits of foreign currencies, and trading in foreign currency spot, forward, futures, swap, and options contracts.

Foreign Exchange Risk The risk of facing uncertain future exchange rates.

Foreign Subsidiary An affiliate organization of a MNC which is independently incorporated in a foreign country.

Foreign Tax Credit Used to avoid double taxation on a parent firm with foreign subsidiaries. It is the credit given to the parent firm against taxes due in the host country based on the taxes paid to foreign tax authorities on foreign-source income.

Forfaiting A form of medium-term trade financing used to finance exports in which the exporter sells promissory notes to a bank at a discount, thereby freeing the exporter from carrying the financing.

Forward Expectations Parity Theory stating that the forward premium or discount is equal to the expected change in the exchange rate between two currencies.

Forward Market A market for trading foreign exchange contracts initiated today but to be settled at a future date.

Forward Market Hedge A method of hedging exchange risk exposure in which a foreign currency contract is sold or bought forward.

Forward Premium/Discount The amount over (under) the spot exchange rate for a forward rate that is often expressed as an annualized percent deviation from the spot rate.

Forward Rate Agreement An interbank contract that is used to hedge the interest rate risk in mismatched deposits and credits.

Free Cash Flow It represents a firm's internally generated fund in excess of the amount needed to finance all investment projects with positive net present values.

Functional Currency For a foreign subsidiary of a MNC, it is the currency of the primary economic environment in which the entity operates. This is typically the local currency of the country in which the entity conducts most of its business.

General Agreement on Tariffs and Trade (GATT) A multilateral agreement between member countries to promote international trade. The GATT played a key role in reducing international trade barriers.

Gold Exchange Standard A monetary system in which countries hold most of their reserves in the form of a currency of a particular country. That country is on the gold standard.

Gold Standard A monetary system in which currencies are defined in terms of their gold content. The exchange rate between a pair of currencies is determined by their relative gold contents.

Gresham's Law Under the bimetallic standard, the abundant metal was used as money while the scarce metal was driven out of circulation, based on the fact that the ratio of the two metals was officially fixed.

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Hedger One who attempts to eliminate the risk of an unfavorable price change in an asset by taking an offsetting position in another asset, usually a derivatives contract.

Hedging via the Invoice Currency A method of hedging exchange risk exposure by invoicing in terms of the home currency of the firm.

Home Bias In portfolio holdings, the tendency of an investor to hold a larger portion of the home country securities than is optimum for diversification of risk.

Income Tax A direct tax levied on the active income of an individual or corporation.

Foreign Exchange Misk The date of tacing nacernals fallers

Indirect Tax A tax levied on a taxpayer's income which was not directly generated by the taxpayer and serves as passive income for the taxpayer.

Initial Performance Bond An initial collateral deposit needed to establish an asset position.

Interest Rate Parity (IRP) An arbitrage equilibrium condition holding that the interest rate differential between two countries should be equal to the forward exchange premium or discount. Violation of IRP gives rise to profitable arbitrage opportunities.

International Banking Facility (IBF) Banking operation within domestic U.S. banks that act as foreign banks in the U.S. and, as such, are not bound by domestic reserve requirements or FDIC insurance requirements. They seek deposits from non-U.S. citizens and can make loans only to foreigners.

International Fisher Effect A theory stating that the expected change in the spot exchange rate between two countries is the difference in the interest rates between the two countries.

International Monetary System The institutional framework within which international payments are made, movements of capital are accommodated, and exchange rates among currencies are determined.

Intrinsic Value The immediate exercise value of an American option.

Functional Carrency For a tonain subsidiary of a MINC, it is the

Jamaica Agreement International monetary agreement in January 1976 by which flexible exchange rates were accepted

currency of the pramary economic environment in which the entry

and gold was abandoned as an international reserve asset.

J-curve Effect Refers to the initial deterioration and eventual improvement of the trade balance following a depreciation of a country's currency.

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ourrent asset prices reflect all the relevant and available

Law of One Price The requirement that similar commodities or securities should be trading at the same or similar prices.

Lead/Lag Strategy Reducing transaction exposure by paying or collecting foreign financial obligations early (lead) or late (lag) depending on whether the currency is hard or soft.

Letter of Credit (L/C) A guarantee from the Importer's Bank that it will act on behalf of the importer and pay the exporter for merchandise if all documentation is in order.

Limit Order An order away from the market price which is held until it can be executed at the desired price.

Liquidity The ability of securities to be bought and sold quickly at close to the current quoted price.

London Interbank Offered Rate (LIBOR) The interbank interest rate at which a bank will offer Eurocurrency deposits to another bank in London. LIBOR is often used as the basis for setting Eurocurrency loan rates. The loan rate is determined by adding a risk premium to LIBOR.

Louvre Accord An agreement in 1987, prompted by the dollar's decline, in which the G-Seven countries (i) cooperate to achieve greater exchange rate stability and (ii) consult and coordinate their macroeconomic policies.

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Manigery Montellery Union, (EMMU). The monetary union M.

Maastricht Treaty Treaty signed in December 1991 states that the European Union will irrevocably fix exchange rates among member countries by January 1999 and introduce a common European currency which will replace individual national currencies.

Maintenance Performance Bond Collateral needed to maintain an asset position.

Managed Float System Established by the Louvre Accord in 1987, it allows the G-7 countries to jointly intervene in the exchange market to correct over- or undervaluation of currencies.

Market Completeness A market is complete if each state of the economy is matched by security payoff.

Market Imperfections Various frictions, such as transaction costs and legal restrictions, that prevent the markets from functioning perfectly.

Market Order An order executed at the best price available (market price) when the order is received in the market.

Marking-to-Market The process of establishing daily price gains and losses in the futures market by the change in the settlement price of the futures contract.

Merchant Bank Banks which perform traditional commercial banking as well as investment banking activities.

Monetary/Nonmonetary Method In dealing with foreign currency translation, the idea that monetary balance sheet accounts such as accounts receivable are translated at the current exchange rate while nonmonetary balance sheet accounts such as stockholder's equity are converted at the historical exchange rate.

Money Market Hedge A method of hedging transaction exposure by borrowing and lending in the domestic and foreign money markets.

Multilateral Netting A system in which all affiliates each net their individual interaffiliate receipts against all their disbursements and transfer or receive the balance, respectively, if it is a net payer or receiver.

Multinational Corporation (MNC) Refers to a firm that has business activities and interests in multiple countries.

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National Neutrality The idea that an ideal tax on taxable income would tax all income in the same manner by the taxpayer's national tax authority regardless of where in the world it is earned.

Negotiable Certificate of Deposit (NCD) A negotiable bank time deposit.

Net Present Value (NPV) A capital budgeting method in which the present value of cash outflows is subtracted from the present value of expected future cash inflows to determine the net present value of an investment project.

Netting Center In multilateral netting, it determines the amount of net payments and which affiliates are to make or pay them.

North American Free Trade Agreement (NAFTA) Created in 1994, it includes the U.S., Canada, and Mexico as members in a free trade area. NAFTA aims to eliminate tariffs and import quotas over a 15-year period.

Notional Principal A reference amount of principal used for determining payments under various derivative contracts.

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Offshore Banking Center A country in which the banking system is organized to allow external accounts beyond the normal economic activity of the country. Their primary function is to seek deposits and grant loans in currencies other than the host country currency.

Open Interest The total number of short or long contracts outstanding for a particular delivery month in the derivative markets.

Operating Exposure The extent to which the firm's operating cash flows will be affected by random changes in the exchange rates.

Operational Hedges Long-term, operational approaches to hedging exchange exposure that include diversification of the market and flexible sourcing.

Optimum Currency Area A geographical area that is suitable for sharing a common currency by virtue of a high degree of factor mobility within the area.

Option A contract giving the owner the right, but not the obligation, to buy or sell a given quantity of an asset at a specified price at some date in the future.

Options Market Hedge Use of put and call options to limit the downside risk of transaction exposure while preserving the upside potential. The price of such flexibility is the option premium.

Over-the-Counter (OTC) Market Trading market in which there is no central marketplace; instead, buyers and sellers are linked via a network of telephones, telex machines, computers, and automated dealing systems.

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Par Value The nominal or face value of stocks or bonds.

Passive Income Income not directly generated by an individual or corporation, such as interest income, royalty income, and copyright income.

Plaza Accord G-5 agreement in 1985 that depreciation of the dollar is desirable to correct the U.S. trade deficits.

Political Risk Potential losses to the parent firm resulting from adverse political developments in the host country.

Portfolio Risk Diversification Portfolio risk is minimized by investing in multiple securities which do not have strong correlations between one another.

Precautionary Cash Balance Emergency funds a firm maintains in case it has underestimated its transaction cash balance.

Price-Specie-Flow Mechanism Under the gold standard, it is the automatic correction of payment imbalances between countries. This is based on the fact that, under the gold standard, the domestic money stock rises or falls as the country experiences inflows or outflows of gold.

Primary Market The market in which new security issues are sold to investors. In selling the new securities, investment bankers can play a role either as a broker or a dealer.

Privatization Act of a country divesting itself of ownership and operation of business ventures by turning them over to the free market system.

Product Differentiation Creating a perception among consumers that a firm's product(s) are different from those offered by competitors, thereby reducing price sensitivity of demand.

Purchasing Power Parity (PPP) A theory stating that the exchange rate between currencies of two countries should be equal to the ratio of the countries' price levels of a commodity basket.

Put An option to sell an underlying asset at a prespecified price.

pertorment measure for a portfolio which gives the

excess return (above the righ-free intensity) returns

Quality Spread Differential (QSD) The difference between the fixed interest rate spread differential and the floating interest rate spread differential of the debt of two counterparties of different creditworthiness. A positive QSD is a necessary condition for an interest swap to occur that ensures that the swap will be beneficial to both parties.

Quantity Theory of Money An identity stating that for each country, the general price level times the aggregate output should be equal to the money supply times the velocity of money.

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Random Walk Hypothesis A hypothesis stating that in an efficient market, asset prices change randomly (i.e., independently of historical trends), or follow a "random walk."

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Thus, the expected future exchange rate is equivalent to the current exchange rate.

Real Exchange Rate Measures the degree of deviation from PPP over a period of time, assuming PPP held at the beginning of the period.

Real Option The application of options pricing theory to the evaluation of investment options in real projects.

Registered Bond A bond whose ownership is demonstrated by associating the buyer's name with the bond in the issuer's records.

Reinvoice Center A central financial subsidiary of a multinational corporation where intrafirm transaction exposure is netted, and the residual exposure is managed.

Reporting Currency The currency in which a MNC prepares its consolidated financial statements. Typically this is the currency in which the parent firm keeps its books.

Residential Taxation See Worldwide Taxation.

Residual Control Rights Refers to the right to make discretionary decisions under those contingencies that are not specifically covered by the contract.

Reversing Trade A trade in either the futures or forward market that will neutralize a position.

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Sarbanes-Oxley Act The U.S. Congress passed this law in 2002 to strengthen corporate governance. The act requires the creation of a public accounting oversight board. It also requires that the CEO and the CFO sign off the company's financial statements.

Secondary Market A market in which investors buy and sell securities to other investors; the original issuer is not involved in these trades. This market provides marketability and valuation of the securities.

Shareholder Wealth Maximization This represents the most important objective of corporate management that managers of companies should keep in mind when they make important corporate decisions. Managers can maximize shareholder wealth by maximizing the market value of the firm.

Sharpe Performance Measure (SHP) A risk-adjusted performance measure for a portfolio which gives the excess return (above the risk-free interest rate) per standard deviation risk.

Shelf Registration Allows bond issuer to pre-register a securities issue which will occur at a later date.

Single-Currency Interest Rate Swap Typically called an "interest rate swap." There are many variants; however, all involve swapping interest payments on debt obligations that are denominated in the same currency.

Smithsonian Agreement In December 1971, the G-10 countries agreed to devalue the U.S. dollar against gold and most major currencies in an attempt to save the Bretton Woods system.

Snake European version of fixed exchange rate system which appeared as the Bretton Woods system declined.

Source Taxation See Territorial Taxation.

Special Drawing Rights (SDR) An artificial international reserve created by the International Monetary Fund (IMF) which

is a currency basket currently comprised of five major currencies.

Specialist On exchange markets in the U.S., each stock is represented by a specialist who makes a market by holding an inventory of the security.

Speculator One who attempts to profit from a favorable, but uncertain, price change in an asset by acquiring a position in it.

Spot (Exchange) Rate Price at which foreign exchange can be sold or purchased for immediate (within two business days) delivery.

Straight Fixed-Rate Bond Bonds with a specified maturity date that have fixed coupon payments.

Striking Price See Exercise Price.

Stripped Bond A synthetic zero coupon bond created by an investment bank via selling the rights to a specific coupon payment or the bond principal of a coupon bond, typically a U.S. Treasury bond.

Subpart F Income Income of controlled foreign corporations which is subject to immediate U.S. taxation and includes income that is relatively easy to transfer between countries and is subject to a low foreign tax levy.

Swap Bank A generic term to describe a financial institution which facilitates currency and interest rate swaps between counterparties.

Swap Broker Function of a swap bank in which it matches counterparties but does not assume any risk of the swap; however, it does receive a commission for this service.

Swap Dealer Function of a swap bank in which it makes a market in one or the other side of a currency or interest rate swap.

Swap Transaction The simultaneous spot sale (purchase) of an asset against a forward purchase (sale) of an approximately equal amount of the asset.

Syndicate A group of Eurobanks banding together to share the risk of lending Eurocredits.

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Tax Equity The idea that all similarly situated taxpayers should participate in the cost of operating the government according to the same rules.

Tax Haven A country that has a low corporate income tax rate and low withholding tax rates on passive income.

Tax Neutrality A principle in taxation, holding that taxation should not have a negative effect on the decision-making process of taxpayers.

Technical Analysis A method of predicting the future behavior of asset prices based on their historical patterns.

Temporal Method In dealing with foreign currency translation, the idea that current and noncurrent monetary accounts as well as accounts which are carried on the books at current value are converted at the current exchange rate. Accounts carried on the books at historical cost are translated at the historical exchange rate.

Territorial Taxation A method of declaring tax jurisdiction in which all income earned within a country by any taxpayer, domestic or foreign, is taxed.

Theory of Comparative Advantage An argument which supports the existence of international trade. This theory states

that it is mutually beneficial for countries to specialize in production of goods for which they can produce most efficiently and then engage in trade.

Time Draft A written order instructing the importer or the importer's bank to pay a specific sum of money on a certain date. Used in import-export trade financing.

Tobin Tax A tax on the international flow of hot money proposed by Professor Tobin for the purpose of discouraging cross-border financial speculation.

Transaction Cash Balance Funds a firm has marked to cover scheduled outflows during a cash budgeting period.

Transaction Exposure The potential change in the value of financial positions due to changes in the exchange rate between the inception of a contract and the settlement of the contract.

Transfer Price The price assigned, for bookkeeping purposes, to the receiving division within a business for the cost of transferring goods and services from another division.

Translation Exposure The effect of an unanticipated change in the exchange rates on the consolidated financial reports of a MNC.

Triangular Arbitrage The process of trading U.S. dollars for a second currency and subsequently trading this for a third currency. This third currency is then traded for U.S. dollars. The purpose of such trading is to earn arbitrage profit via trading from the second currency to the third.

Triffin Paradox Under the gold exchange standard, the reservecurrency country should run a balance of payments deficit, but this can decrease confidence in the reserve currency and lead to the downfall of the system.

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Uncovered Interest Rate Parity This parity condition holds that the difference in interest rates between two countries is equal to the expected change in exchange rate between the countries' currencies.

Universal Bank International banks that provide such services as consulting in foreign exchange hedging strategies, interest rate and currency swap financing, and international cash management.

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Value-Added Tax (VAT) An indirect national tax which is levied on the value added in the production of a good or service as it moves through the various stages of production.

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Withholding Tax An indirect tax levied on passive income earned by an individual or corporation of one country within the tax jurisdiction of another country.

World Beta A measure of the sensitivity of an asset or portfolio to the world market movements. This is a measure of the world systematic risk.

World Equity Benchmark Shares (WEBS) WEBS are exchange-traded, open-end country funds designed to closely track national stock market indices. WEBS are traded on the American Stock Exchange (AMEX).

World Trade Organization (WTO) Permanent international organization created by the Uruguay Round to replace GATT. The WTO will have power to enforce international trade rules.

Worldwide Taxation A method of declaring national tax jurisdiction in which national residents of the country are taxed on their worldwide income regardless of which country it is earned in.

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Yankee Bond (Stock) Bond (stock) directly sold to U.S. investors by foreign companies.

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Zero Coupon Bond A bond that pays no coupon interest and simply returns the face value at maturity.