**Diva Shoes, Inc.**

**Questions**

1. Briefly describe the situation that Diva is facing in this case.
2. Benjamin Bisno has made no real attempt to manage Diva’s exchange rate risk up to now. Why not? Has this strategy worked well for him? Do you think it is a good strategy going forward?
3. Why is Diva’s exposure to the yen greater than its exposure to the Italian lira?
4. Over the past 16 months, how has the yen been doing vs. the dollar? Has this been good or bad for Diva? Why?
5. Based on Interest Rate Parity, what would you expect the six-month forward rate to be for the Yen/Dollar exchange rate? Please show your calculations.
6. Describe the differences between a forward currency hedge and a currency option hedge. If Diva were to choose to hedge its exchange rate risk with the yen, which would you recommend and why?
7. This case takes place in April 1995. Use the “Historical Exchange Rates” link on our class website to investigate what happened to the Yen/Dollar exchange rate over the next three years. What do you find?
8. Look at Diva’s estimated yen revenues for 9/28/95 in Exhibit 4. What is the expected Yen revenue growth for the six months from 4/1/95?
9. Assume that Diva’s yen revenues continued to grow at that rate over the next three years (until 9/28/98). Show what they would be each six months in yen, and in dollars (based on what we now know were the exchange rates). Use the exchange rates you found in question 7.
10. Continuing from question 9, calculate the total percent growth in yen from 4/1/95 – 9/28/98 and the total percent growth in dollars for that time period.
11. Suppose that on 4/1/95, Diva could have hedged the yen/dollar exchange rate for the next three and a half years at 100 yen per dollar. How much dollar difference would this have made on 9/28/98 assuming a 35% tax rate and the ability to reinvest at 3% semiannually?