科目：311 商學文獻評述
系組：國企系甲組

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Please read the following news and answer the following two questions:

1. Please tell us why market expects US dollar appreciating against euro if Federal Reserve raises US interest rates? What kind theory can be used to describe this phenomenon? (25 points)

2. British government already raised interest rates several times this year. Why Sterling also retreated against US dollar?(15 points)

Dollar hits 3-week high on Fed talk

June 11, 2004: 2:16 PM EDT

NEW YORK (Reuters) - The dollar rose to a three-week high against the euro and edged up 1 percent against other major currencies Friday after a Federal Reserve official stoked expectations the central bank could aggressively raise U.S. interest rates.

St. Louis Fed President William Poole told Reuters that the Fed must raise rates more quickly than the market expects if inflation speeds up. He said delaying Fed action would not help the U.S. economy. Poole's comments gave a further boost to the dollar, which already benefited this week from hawkish remarks from a number of Fed officials, most notably Fed Chairman Alan Greenspan on Tuesday.

Trade was thin, with U.S. markets closed to mark the funeral of former President Ronald Reagan. "It has been pretty quiet since New York started. A lot of markets are closed or working a short day because of the services for Reagan. However, the key trend seems to be the remarks from Poole late last night," said Nick Bennenbroek, foreign exchange strategist at Brown Brother Harriman & Co. in New York. The euro briefly dropped through the psychologically key $1.20 mark to three-week lows of $1.1964, a loss of 3 percent since Tuesday. By early afternoon in New York, the euro was down 0.7 percent at $1.2013. "If inflation rises faster, various Fed speakers said that the FOMC would move faster as well. That kind of sentiment is the key initial trigger for the dollar's strength," Bennenbroek said.

The comments from Poole, a voting member of the policy-setting Federal Open Market Committee, rekindled speculation about more rate rises in quick succession after the Fed's meeting on June 29-30. The Fed is expected to raise rates by 1/4 percentage point at that meeting, from a 46-year low of 1 percent. Poole said: "If it looks like the signal (of inflation) is really there, then my personal position would be that it would be appropriate for the FOMC to move further and faster than priced-in in the market today."

On Tuesday, Greenspan said the bank would do "what is required" to keep inflation in check. Atlanta Fed President Jack Guynn echoed Poole's remarks on Friday, saying rising U.S. inflation demands close scrutiny from the Fed, which must preserve its credentials for keeping prices low. Federal Reserve Bank of Cleveland President Sandra Pianalto, speaking before the Pennsylvania Economic Association on Friday, said official interest rates are too low to be sustainable and the Fed must raise them to preserve price stability or risk losing credibility. The dollar traded steady after Pianalto's remarks.

With the pace of the Fed's tightening seen depending on the U.S. inflation, many market players were awaiting inflation-related data due next week, including the consumer price index for May and producer prices. The dollar rose to a session high at ￥110.49, recovering ground from recent one-month lows of 108.64, and rose more than 1 percent against the Swiss franc to 1.2615 francs before easing to 1.2591. Sterling also fell 1.2 percent against the buoyant dollar to session lows at $1.8163 before tracing back to $1.8175.

3. Please use financial theory to elaborate how job cutting and spin off can improve profitability of Schering?(30 points)

Schering Says It Will Cut 900 Jobs

By DAVID McHUGH, AP Business Writer, Tue Jun 15, 7:31 AM ET

FRANKFURT, Germany - German pharmaceutical firm Schering AG said Tuesday it will shed 900 jobs, or about 3 percent of its worldwide work force, by 2006 and spin off its dermatology division as part of a reorganization aimed at improving profitability and sharpening the company's focus on what it considers high-growth businesses. Schering will also create a new division devoted to anticancer drugs, the company said in a statement.

"The reshuffle of our business portfolio will enable us to concentrate on those fields with the best growth prospects for Schering," CEO Hubertus Erlen said. "Our portfolio structure combines high growth opportunities with established profitable businesses. We believe that this strategy will increase the value of our company significantly."

In an attempt to increase profit margins, the company said it would intensify efforts to cut overhead in production, administration and development by dropping some 900 jobs, most of them outside Germany, by 2006, on top of 1,100 job reductions already announced. The company has around 26,500 employees worldwide. A strategic review had found that the dermatology business needed more resources to develop promising new drugs, leading to the decision to create a separate entity that will have more flexibility to seek partnerships with other companies, the company said.

The move will create a company with 600 employees headquartered in Berlin, the company said. Drugs for skin diseases were a 200 million euro ($240 million) business for Schering in 2003, and the new company's portfolio will include Advantan and Nerisona for the treatment of eczema, Travocort for fungal infections, acne drug Skinoren and psoriasis medications Psorcutan and Psorcutan Beta. Principal products under development will be topical and oral vitamin-D derivatives for the treatment of plaque type psoriasis.

Schering's cancer drug business would be elevated to the status of a major division within the company, the statement said, and it will halt research in cardiovascular drugs and central nervous system drugs, with the exception of multiple sclerosis treatments. The company's stock was up 0.2 percent at 45.56 euros ($54.67) in midday trading in Frankfurt. Schering AG's connection to its former U.S. subsidiary, Schering-Plough, was broken during World War II and the companies are no longer related.

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4. The following news said that both bond prices and stock prices rose after the latest CPI index rising more than expected. Why it is so? Doesn't theory tell us that both bond and stock prices will fall down if inflation causes people expecting higher interest rates in the near future? (30 points)

U.S. Bond Prices Soar on Inflation News

Tue Jun 15, 6:40 PM ET Add Business - AP to My Yahoo!

NEW YORK - Bond prices soared Tuesday even as the stock market advanced, as investors received some positive news about inflation and the economy from Federal Reserve (news - web sites) Chairman Alan Greenspan (news - web sites). The price of the benchmark 10-year Treasury note rose 1 15/32 point, or $14.69 per $1,000 in face value. Its yield, which moves in the opposite direction, fell to 4.68 percent from 4.87 percent a day earlier. The 30-year Treasury bond increased 2 9/32 point to yield 5.37 percent, down from 5.53 percent on Monday, according to Moneyline Telerate.

Testifying before Congress at his reconfirmation hearing, Greenspan said that, in the short term, inflation was not a major problem, though he repeated that the Fed would be aggressive if necessary. Greenspan's comments followed the Labor Department (news - web sites)'s release of its latest Consumer Price Index (news - web sites). The CPI reading was higher than expected, but investors were upbeat that the "core" CPI — without energy and food prices — met expectations, indicating that economic expansion, and accompanying inflation, may be manageable.

In other trading, the benchmark 2-year note rose 11/32 point to yield 2.75 percent from 2.93 percent a day earlier. The Dow Jones industrial average rose 46 points, or 0.4 percent, to 10,380. Broader stock indicators also had solid gains. The Standard & Poor's 500 index climbed 7 points, or 0.6 percent, to 1,132, and the Nasdaq composite index was up 26 points, or 1.3 percent, at 1,996. Yields on one-month Treasury bills were 1.00 percent as the discount slipped 0.02 percentage points to 0.99 percent. Yields on three-month Treasury bills were 1.33 percent as the discount slipped 0.04 percentage points at 1.31 percent. Six-month yields were 1.68 percent, as the discount slipped 0.05 percentage point to 1.64 percent. Yields are the interest bonds pay by maturity, while the discount is the interest at which they are sold.

The federal funds rate, the interest on overnight loans between banks, rose to 1.06 percent, from 1.00 percent a day earlier.