EC 3580 International Economics II Instructor: Sharif F. Khan	Department of Economics Atkinson College, York University Summer 1 2008

Assignment 3 (OPTIONAL)

Total Marks: 40

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which one of the following expressions is the most accurate? 1) _____
A) CA = EX + IM
B) CA = EX - IM
C) CA = EX = IM
D) CA = IM - EX
E) None of the above.

2) In an open economy, private saving, S^P, is equal to 2) _____
A) I + CA + (G + T)
B) I - CA + (G - T)
C) I + CA + (G - T)
D) I + CA - (G - T)
E) I - CA - (G - T)

3) An American buys a Japanese car, paying by writing a check on an account with a bank in New York. How would this be accounted for in the balance of payments? 3) _____
A) Current account, a Japanese good import
B) Current account, a U.S. good import
C) Financial account, a U.S. asset import
D) Financial account, a U.S. asset export
E) Only B and D.

4) The official settlements balance or balance of payments is the sum of 4) _____
A) The current account balance and the capital account balance
B) The current account balance, the capital account balance, the non reserve portion of the financial account balance, the statistical discrepancy
C) The current account balance, the capital account balance, the non reserve portion of the financial account balance
D) The current account balance and the non reserve portion of the financial account balance
E) None of the above.

5) How many dollars would it cost to buy an Edinburgh Woolen Mill sweater costing 50 British pounds if the exchange rate is 1.25 dollars per one British pound? 5) _____
A) 60 dollars
B) 50 dollars
C) 40 British pounds
D) 70 dollars
E) 62.5 dollars

6) What is the exchange rate between the dollar and the British pound if a pair of American jeans costs 50 dollars in New York and 100 Pounds in London? 6) _____
A) 2.5 dollars per British pound
B) 2 dollars per British pound
C) 3.5 dollars per British pound
D) 0.5 dollars per British pound
E) 1.5 dollars per British pound

7) Which one of the following statements is the most accurate? 7) _____
A) The dollar rate of return on euro deposits is approximately the euro interest rate plus the rate of appreciation of the dollar against the euro.
B) The dollar rate of return on euro deposits is approximately the euro interest rate minus the rate of depreciation of the dollar against the euro.
C) The dollar rate of return on euro deposits is the euro interest rate plus the rate of depreciation of the dollar against the euro.
D) The dollar rate of return on euro deposits is approximately the euro interest rate plus the rate of depreciation of the dollar against the euro.
E) The dollar rate of return on euro deposits is the euro interest rate minus the rate of depreciation of the dollar against the euro.

8) If the dollar interest rate is 10 percent and the euro interest rate is 6 percent, and the expected return on dollar depreciation against the euro is eight percent, then 8) _____
A) An investor should invest only in euros.
B) An investor should be indifferent between dollars and euros.
C) An investor should invest only in dollars.
D) It is impossible to tell given the information.
E) All of the above.

9) Suppose that the one-year forward price of euros in terms of dollars is equal to $1.113 per euro. Further, assume that the spot exchange rate is $1.05 per euro, and the interest rate on dollar deposits is 10 percent and on euro it is 4 percent. Under these assumptions, 9) _____
A) Covered interest parity does hold.
B) Covered interest parity does not hold.
C) It is hard to tell whether covered interest parity does or does not hold.
D) Not enough information is given to answer the question.
E) None of the above.

10) In the beginning of 2006, you pay $100 for a share of stock that pays you a dividend of $1 at the beginning of 2007. If the stock price rises from $100 to $109 per share over the year: 10) _____
A) Then you have earned a rate of 9 percent over 2006
B) Then you have earned a rate of 5 percent over 2006
C) Then you have earned a rate of 1 percent over 2006
D) Then you have earned a rate of 10 percent over 2006
E) Then you have earned a rate of 4 percent over 2006

11) For a given level of 11) _____
A) real GNP, changes in interest rates cause an increase of the L(R,Y) schedule.
B) real GNP, changes in interest rates cause a decrease of the L(R,Y) schedule.
C) real GNP, changes in interest rates cause movements along the L(R,Y) schedule.
D) nominal GNP, changes in interest rates cause an increase in the L(R,Y) schedule.
E) nominal GNP, changes in interest rates cause movements along the L(R,Y) schedule.

12) An increase in a country's money supply causes 12) _____
A) its currency to depreciate in the foreign exchange market while a reduction in the money supply causes its currency to further depreciate.
B) its currency to appreciate in the foreign exchange market while a reduction in the money supply causes its currency to depreciate.
C) no effect on the values of it currency in international markets.
D) its currency to depreciate in the foreign exchange market while a reduction in the money supply causes its currency to appreciate.
E) None of the above.

13) Given P_{US} and Y_{US}, 13) _____
A) An increase in the European money supply causes the euro to depreciate against the dollar, but it does not disturb the U.S. money market equilibrium.
B) An increase in the European money supply causes the euro to depreciate against the dollar, and it creates excess demand for dollars in the U.S. money market.
C) An increase in the European money supply causes the euro to appreciate against the dollar, and it creates excess demand for dollars in the U.S. money market.
D) An increase in the European money supply causes the euro to appreciate against the dollar, but it does not disturb the U.S. money market equilibrium.
E) None of the above statements is true.

14) Which one of the following statements is the most accurate? 14) _____
A) A temporary increase in a country's money supply causes a proportional long-run depreciation of its currency against foreign currencies.
B) A permanent increase in a country's money supply causes a proportional short-run depreciation of its currency against foreign currencies.
C) A permanent increase in a country's money supply causes a proportional long-run appreciation of its currency against foreign currencies.
D) A permanent increase in a country's money supply causes a proportional long-run depreciation of its currency against foreign currencies.
E) A permanent increase in a country's money supply causes a proportional short-run appreciation of its currency against foreign currencies.

15) The aggregate demand for money can be expressed by: 15) _____
A) $Md = L \times P(R,Y)$
B) $Md = R \times L(R, P)$
C) $Md = R \times L(P,Y)$
D) $Md = P \times L(R,Y)$
E) $Md = P \times Y(R, L)$

16) Under Purchasing Power Parity, 16) _____
A) $E_{\$/E} = Pi_{US}/Pi_E$
B) $E_{\$/E} = Pi_E/Pi_{US}$
C) $E_{\$/E} = P_E/P_{ES}$
D) $E_{\$/E} = P_{US}/P_E$
E) None of the above.

17) The expected rate of change in the nominal dollar/euro exchange rate is best described as 17) _____
A) the expected rate of change in the real dollar/euro exchange rate *minus* the U.S.-Europe real interest rate difference
B) the expected rate of change in the real dollar/euro exchange rate *plus* the U.S.-Europe real interest rate difference
C) the expected rate of change in the real dollar/euro exchange rate *plus* the European expected inflation
D) the expected rate of change in the real dollar/euro exchange rate *minus* the U.S.-Europe expected inflation difference
E) the expected rate of change in the real dollar/euro exchange rate *plus* the U.S.-Europe expected inflation difference

18) The expected real interest rate (r^e) in terms of the nominal interest rate (R) and the expected inflation rate (π^e) is given by 18) _____
A) $r^e = 2\pi^e + R^2$
B) $r^e = R^2 - \pi^e$
C) $r^e = \pi^e + R^2$
D) $r^e = R - \pi^e$
E) $r^e = \pi^e + R$

19) The PPP theory fails in reality because 19) _____
A) Monopolistic or oligopolistic practices in goods markets
B) The inflation data reported in different countries are based on different commodity baskets.
C) Transport costs and restrictions on trade
D) A, B, and C.
E) A and B only.

20) The monetary approach makes the general prediction that 20) _____
A) The exchange rate, which is the relative price of American and European money, is fully determined in the short run by the relative supplies of those monies and the relative demands for them
B) The exchange rate, which is the relative price of American and European money, is fully determined in the short- and long run by the relative supplies of those monies and the relative demands for them
C) The exchange rate, which is the relative price of American and European money, is fully determined in the long run by the relative supplies of those monies.
D) The exchange rate, which is the relative price of American and European money, is fully determined in the long run by the relative supplies of those monies and the relative demands for them
E) None of the above statement is true.