Signature:_____

Fall 2004   Professor: Alan G. Isaac

ECON-372 FINAL EXAMINATION

Instructions: ALL QUESTIONS ARE EQUALLY WEIGHTED. Choose the one best answer. The exam is closed books, closed notes. All variables are as defined in class. GOOD LUCK!!

MULTIPLE CHOICE   Answer all 107 questions.

1. Why did Milton Friedman (and others) expect speculation to be stabilizing under floating exchange rates?

   (a) Speculation was poorly understood in the 1950s.
   (b) Monetarists have an inordinate faith in the stability of competitive markets.
   (c) Successful speculation increases the demand for foreign exchange when demand is low and increases the supply of foreign exchange when supply is low.
   (d) They carefully modeled the contribution of rational "noise traders".
   (e) All of the above.

2. What are the units of the real exchange rate?

   (a) dollars per pound
   (b) USD/GBP
   (c) domestic currency units per foreign currency unit
   (d) domestic commodity baskets per foreign commodity basket
   (e) none of the above

3. The total income of the private sector is

   (a) GDP
   (b) GNP
   (c) GNP plus unilateral transfers received from abroad
   (d) GNP plus M2
   (e) GNP less taxes

4. A forward exchange rate is

   (a) the actual spot rate at a predetermined future date.
   (b) the exchange rate which speculators expect to prevail at a future date.
   (c) the rate at which one contracts today for foreign exchange in the future.
   (d) b and c
   (e) all of the above

5. Which of the balance of payments accounts records trade in goods and services?

   (a) private capital account (KA)
   (b) official reserve transactions account (ORT)
   (c) current account (CA)
   (d) the overall balance of payments (BoP)
   (e) none of the above

6. Which of the balance of payments accounts records investment income?

   (a) private capital account (KA)
   (b) official reserve transactions account (ORT)
   (c) current account (CA)
   (d) the overall balance of payments (BoP)
   (e) none of the above

7. Imported TV sets are a

   (a) credit for merchandise trade in current account.
   (b) debit for merchandise trade in current account.
   (c) debit for merchandise trade in private capital account.
   (d) credit for direct investment in private capital account.
   (e) all of the above

8. If a U.S. citizen rents a car in Paris, the rental should generate a

   (a) credit for merchandise trade in current account.
   (b) debit for merchandise trade in private capital account.
   (c) credit for direct investment in private capital account.
   (d) debit for transportation services in current account.
   (e) not enough information to tell.

9. A newly arrived French student at the American University pays tuition by check. In the U.S. balance of payments, this generates

   (a) a debit in the services subaccount
   (b) a U.S. service import
   (c) a credit in services subaccount
   (d) a credit in the U.S. capital account
   (e) a and d.

10. As a measure of our ignorance about future movements of the spot rate, the random walk can be a useful benchmark for comparison. Which is true if the spot exchange rate follows a random walk?

    (a) The real exchange rate is assumed to have a tendency to return over time to long-run equilibrium dictated by Purchasing Power Parity.
    (b) To invest in the country where the value of currency is below its PPP equilibrium would be the rule because the currency can be expected to rise again in the future.
    (c) A forecast will be more successful using the long-run exchange rate than using the current spot rate.
    (d) The principle of regression to PPP cannot be used to obtain a better prediction of the future spot rate.
    (e) none of the above