

ECON-372 MIDTERM 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 56 questions.

1. Which of the following is an example of a “flow” variable?
 - (a) the spot rate
 - (b) the forward rate
 - (c) interest rate
 - (d) a. and b.
 - (e) all of the above
2. Which of the following is an example of a “stock” variable?
 - (a) the spot rate
 - (b) the forward rate
 - (c) interest rate
 - (d) a. and b.
 - (e) all of the above
3. Speculative activity is likely to occur in the foreign exchange market
 - (a) whenever covered interest parity holds.
 - (b) whenever uncovered interest parity holds.
 - (c) when synthetic cross rates equal direct rates.
 - (d) when the current spot rate differs from the forward rate.
 - (e) when the expected future spot rate differs from the forward rate.
4. Suppose you buy USD 1000 worth of sterling (GBP) in New York, and sell it in London for Euros (EUR), and sell these EUR for USD 1250 in Frankfurt. This implies,
 - (a) Profitability of triangular currency arbitrage.
 - (b) An inconsistency in the bilateral exchange rates connecting the three currencies.
 - (c) Bilateral exchange rates differ in the three financial centers
 - (d) a and b
 - (e) all of the above
5. Which of the following predictions of economists were realized with the advent of the general float?
 - (a) new financial instruments emerged to facilitate the hedging of foreign exchange risk
 - (b) monetary authorities held fewer reserves.
 - (c) large trade imbalances proved to be rare occurrences.
 - (d) real exchange rates proved to be very stable in the long run.
 - (e) none of the above

6. One U.S. dollar currently buys very roughly about how many Euros?
- (a) .08
 - (b) .8
 - (c) 8
 - (d) 80
 - (e) 800
7. One U.S. dollar currently buys very roughly about how many Japanese yen?
- (a) .01
 - (b) .11
 - (c) 1.1
 - (d) 11
 - (e) 110
8. One U.S. dollar currently buys about how many British pounds?
- (a) .05
 - (b) .55
 - (c) 5.5
 - (d) 55
 - (e) 555
9. One U.S. dollar currently buys about how many Canadian dollars?
- (a) .013
 - (b) .125
 - (c) 1.25
 - (d) 12.5
 - (e) 125
10. During the Reagan administration,
- (a) taxes were cut.
 - (b) government spending was increased.
 - (c) huge government budget deficits were run.
 - (d) huge current account deficits were run.
 - (e) all of the above.
11. During the Clinton administration,
- (a) inflation skyrocketed.
 - (b) the federal budget deficit increased dramatically.
 - (c) huge current account deficits were run.
 - (d) all of the above.
 - (e) none of the above.