

Original

Matr.-Nr. _____

Name: _____

Examination

International Macroeconomics
and Finance (No. 1293)

Examiners:

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Semester:

Summer Semester 2005

The following aids may be used:

Non-programmable pocket calculators;
English language dictionaries without
any marking.

Time:

120 minutes

This exam comprises 25 problems. For each problem exactly one of the three optional answers is correct. Do not mark more than one answer to any of the questions, otherwise the solution will be considered false. For every correct answer you obtain 2 points, for every false answer 1 point is subtracted. If no answer is marked you neither obtain nor lose a point.

Make sure that this copy of the exam bears your matriculation number and name in the appropriate fields at the top of this page!

Examination Questions:

1. In period t an effective appreciation of the euro is recorded if

- ☐ a) the share of a major trading partner of the euro-area in the euro-area's foreign trade, whose currency has depreciated vis-à-vis the euro, has increased in the current period;
- ☐ b) the euro has appreciated in terms of the currencies of some trading partners while not depreciating against the others;
- ☐ c) the price level of the euro-area's exports has decreased relative to the price levels in the rest of the world.

2. The real exchange rate of some country is said to rise if

- ☐ a) for unchanged nominal exchange rates, its inflation rate over the last year has been higher than the inflation rate in the rest of the world;
- ☐ b) for unchanged nominal exchange rates, its inflation rate has been lower than the other countries' inflation rates;
- ☐ c) the country's terms of trade have improved over the last year.

3. If the spot exchange rate of the euro is 1.30 \$ and the 12-months forward rate is 1.50 \$, the CIP condition requires the interest rate on 12-months dollar deposits to be (approximately) 17 % if the interest rate on 12-months euro deposits is

- ☐ a) 2 %;
☐ b) 10 %;
☐ c) 20 %.

4. The Relative Purchasing Power Parity hypothesis claims that

- ☐ a) the real exchange rate between two currencies is constant.
☐ b) in the medium run the two currencies' purchasing power is the same.
☐ c) in the medium run monetary policies do not affect the real exchange rate between two currencies.

5. Assume that there are strict capital controls but full convertibility for current-account transactions. In the short run (for given GDP) and without central bank intervention, an equilibrium of the foreign exchange market is stable with respect to small shocks if

- ☐ a) the sum of export and import exchange-rate elasticities is smaller than 1.
☐ b) the sum of export and import elasticities is equal to 1.
☐ c) the sum of import and export elasticities is bigger than 1.

6. Assume that the value of a country's exports is 20 billion, and there is a trade deficit of 40 billion. The price elasticity of exports is $\frac{3}{4}$, that of imports $\frac{1}{3}$. A devaluation of the domestic currency will

- ☐ a) improve the trade balance (measured in domestic currency).
☐ b) worsen the trade balance (measured in domestic currency).
☐ c) worsen the trade balance (measured in foreign currency).

7. In the German balance-of-payments accounts (where exports are credits, and imports debits), the purchase of a controlling stake in a German company by a U.S. firm for dollars in cash affects

- ☐ a) the unilateral-transfers account on the debit and the short-term capital account on the credit side.
☐ b) the long-term capital account on the debit and the short-term capital account on the credit side.
☐ c) the short-term capital account on the debit and the long-term capital account on the credit side.

8. In the German balance-of-payments accounts the German annual contribution to the EU budget affects
- ☐ a) the unilateral-transfers account on the debit and the ORT account on the credit side.
 - ☐ b) the unilateral-transfers account on the debit and the short-term capital account on the credit side.
 - ☐ c) the short-term capital account on the credit side and the ORT account on the debit side.
9. If an economy's aggregate saving is smaller than aggregate investment, the country's balance of payments shows
- ☐ a) a surplus on the trade account.
 - ☐ b) a surplus on the capital account.
 - ☐ c) a deficit on the trade account.
10. Assume that the marginal propensity to consume for a small economy is 0.4, the marginal propensity to import is 0.2, and the marginal tax rate on incomes is 0.5. At a given rate of interest an increase in real exports, due to a fall in the real exchange rate, by 8 billion will increase domestic effective demand (GDP) by
- ☐ a) 8 billion.
 - ☐ b) 10 billion.
 - ☐ c) 12 billion.
11. Assume that the economy in problem 10 would be large enough so that a change in its GDP would have a significant effect on the rest of the world. Would in this case the impact of the increase in real exports on domestic GDP be
- ☐ a) bigger than
 - ☐ b) small than
 - ☐ c) the same as
- for the small economy?
12. Consider an economy with strict capital controls but full convertibility for current-account transactions. Suppose that the government wishes to minimize the fluctuations of domestic real GDP in the presence of fluctuating domestic investment and volatile foreign demand for domestic output. Which exchange rate regime would be preferable if the volatility of investment is much higher than that of foreign demand?
- ☐ a) Fixed exchange rates.
 - ☐ b) Floating exchange rates.
 - ☐ c) Does not matter.

13. The Laursen-Metzler-Harberger (LMH) effect claims that current aggregate domestic saving increases when there is

- ☐ a) a real appreciation of the domestic currency that is expected to be just temporary.
- ☐ b) a real depreciation of the domestic currency that is expected to be just temporary.
- ☐ c) a real depreciation of the domestic currency that is expected to be permanent.

14. In the presence of the LMH-effect the fiscal multiplier of a small open economy with fixed exchange rate is

- ☐ a) bigger than
- ☐ b) small than
- ☐ c) the same as

without the LMH-effect?

15. Assume that for a given exchange rate and a given level of public expenditure a small open economy suffers from a trade balance deficit and an underemployment level of GDP. In order to restore full employment and a zero trade balance, an appropriate policy mix (if the ML-condition holds) may be

- ☐ a) a devaluation of the domestic currency and a cut in government expenditure.
- ☐ b) a revaluation of the domestic currency and an increase in government expenditure.
- ☐ c) an increase in government expenditure without a change in the exchange rate.

16. Under a regime of fixed exchange rates and without sterilization by the central bank, the expansionary effect of a rise in government spending is

- ☐ a) higher for low than for high capital mobility.
- ☐ b) higher for high than for low capital mobility.
- ☐ c) independent on the degree of capital mobility.

17. Under a regime of fixed exchange rates, the contractionary effect of a revaluation of the domestic currency

- ☐ a) is bigger for a weaker Laursen-Metzler-Harberger (LMH) effect.
- ☐ b) is smaller for a weaker LMH-effect.
- ☐ c) does not depend on the size of the LMH-effect.

18. A rise in the foreign rate of interest has, if there is some capital mobility,

- ☐ a) an expansionary effect on domestic aggregate demand if the exchange rate is freely floating.
- ☐ b) an expansionary effect on domestic aggregate demand if the exchange rate is kept fixed.
- ☐ c) a contractionary effect on domestic aggregate demand under any exchange rate regime.

19. For a small open economy which imports semi-finished goods a depreciation of its currency will have

- ☐ a) a contracting effect on short-run aggregate supply (SAS).
- ☐ b) an expansionary effect on SAS.
- ☐ c) no impact on SAS.

20. According to the Dornbusch model, an unanticipated, once-and-for-all drop in the domestic money supply will

- ☐ a) in the longer run cause a fall in the domestic real exchange rate.
- ☐ b) immediately have no effect on the domestic real exchange rate.
- ☐ c) immediately cause the real exchange rate of the domestic currency to rise.

21. Under conditions of low capital mobility, the effect of a cut in taxes on domestic effective demand

- ☐ a) is stronger if the monetary authorities keep the exchange rate fixed than for a floating exchange rate.
- ☐ b) is stronger if the exchange rate is freely floating than in the case of a fixed exchange rate.
- ☐ c) does not depend on the exchange rate policy rule.

22. Assume that a small member country of the European Monetary Union experiences a domestic boom. As a consequence, without any policy response, the upward pressure on the domestic price level

- ☐ a) is weaker than it would be if the country were not member of EMU and let its exchange rate float.
- ☐ b) is stronger than it would be in the case of non-membership in EMU and floating exchange rate.
- ☐ c) does not depend on the country being member of EMU or not.

23. The Dornbusch model predicts that an unanticipated permanent increase in the domestic money supply of 10 % will lead to an immediate increase in the price of foreign currency of $(10+x)$ %, where

- ☐ a) $x < 0$ and $-x$ is the bigger the faster economic agents expect the exchange rate to converge to its equilibrium level.
- ☐ b) $x > 0$ and the bigger the smaller is the (semi-)interest elasticity of money demand.
- ☐ c) $x > 0$ and the smaller the more slowly economic agents expect the exchange rate to converge to its equilibrium level.

24. Under a regime of floating exchange rates, an increase in the domestic government's budget deficit will bring about

- ☐ a) a depreciation of the domestic currency.
- ☐ b) an appreciation of the domestic currency for very low capital mobility.
- ☐ c) an appreciation of the domestic currency for sufficiently high capital mobility.

25. The Dornbusch model predicts, in consequence of a monetary contraction, for the medium run an appreciation of the domestic currency which is

- ☐ a) higher than predicted by the relative purchasing power parity (RPPP) hypothesis.
- ☐ b) lower than predicted by RPPP.
- ☐ c) equal to the RPPP prediction.

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