

EE452

Review Questions

Instruction: Please try to answer these questions on your own first. The answer guideline is posted in BE-Moodle as a separate file.

Topic 1

Multiple Choice:

1. A country's balance of payments records:
 - a. the prices that a country pays for its imports and the prices that the country receives for its imports.
 - b. the flows of value between that country's residents and residents of the rest of the world during a period of time.
 - c. capital gains and losses on a country's international assets.
 - d. the value of a country's holdings of foreign assets, minus the value of foreign holdings of the country's assets.

2. A credit item in the balance of payments is:
 - a. an item for which the country must be paid.
 - b. any loan given out by the country.
 - c. any imported item.
 - d. an item that creates a monetary claim owed to a foreigner.

3. A debit item in the balance of payments is:
 - a. any foreign aid received by the country.
 - b. an item for which the country must pay.
 - c. any exported item.
 - d. an item that creates a monetary claim on a foreigner.

4. In a nation's balance of payments, which one of the following items is always recorded as a positive entry?
 - a. Changes in foreign currency reserves
 - b. Imports of goods and services
 - c. Military foreign aid supplied to allied nations
 - d. Purchases by foreign travelers visiting the country

5. Every international exchange of value is entered into the balance-of-payments accounts _____ time(s).
 - a. one
 - b. two
 - c. three
 - d. four

6. The sum of all of the debit items in the balance of payments:
 - a. equals the overall balance.
 - b. equals the sum of all credit items.
 - c. equals 'compensating' transactions.
 - d. equals the errors and omissions.

7. Which of the following capital transaction items is entered as a debit in the U.S. balance of payments?
- A U.S. resident transfers \$100 from his account at Credit Suisse in Basel (Switzerland) to his account at a San Francisco branch of Wells Fargo Bank.
 - A French resident transfers \$100 from his account at Wells Fargo Bank in San Francisco to his Credit Suisse account in Basel.
 - A U.S. resident sells his IBM stock to a French resident.
 - A U.S. resident sells his Credit Suisse stock to a French resident.
8. An increase in a nation's financial liabilities to foreign residents is a:
- reserve inflow.
 - reserve outflow.
 - capital imports.
 - capital exports.
9. _____ are money-like assets that are held by governments and that are recognized by governments as fully acceptable for payments between them.
- Official international reserve assets
 - Unofficial international assets
 - Official domestic assets
 - Unofficial reserve assets
10. Which of the following is considered a capital inflow?
- A sale of U.S. financial assets to a foreign buyer
 - A loan from a U.S. bank to a foreign borrower
 - A purchase of foreign financial assets by a U.S. buyer
 - A U.S. citizen's repayment of a loan from a foreign bank

Essay Question:

Explain the three different viewpoints (meanings) of the current account balance. Discuss the macroeconomic interpretations of a current account deficit.

Topic 2

- 1 Which of the following refers to foreign exchange?
- The act of trading different nations' moneys
 - The holdings of foreign assets
 - The act of exchanging goods and services internationally.
 - The adoption of foreign trade policies
2. If the price of British pounds in terms of the U.S. dollars is \$1.80 per pound, then the price of U.S. dollars in terms of British pounds is:
- £1.80 per dollar.
 - £0.555 per dollar.
 - £0.90 per dollar.
 - £3.60 per dollar.

3. The exchange rate set for an immediate trade is often referred to as a:
 - a. managed exchange rate.
 - b. pegged exchange rate.
 - c. forward exchange rate.
 - d. spot exchange rate.

4. When the exchange rate is set now for a currency trade that will take place sometime more than a few days in the future is often referred to as a:
 - a. spot exchange rate.
 - b. forward exchange rate.
 - c. pegged exchange rate.
 - d. managed exchange rate.

5. The retail part of the foreign exchange market does not include traders at banks trading with:
 - a. national governments.
 - b. stock brokers who trade in the assets of the firms in different nations.
 - c. traders at other banks.
 - d. nonfinancial companies that sometimes want to buy and sell different currencies.

6. Which of the following is true of foreign exchange markets?
 - a. The foreign exchange market is a single gathering place where traders shout buy and sell orders at each other.
 - b. Individuals' exchanges of currencies comprise the largest portion of overall foreign exchange trading.
 - c. The laws of demand and supply are not applicable in a foreign exchange market.
 - d. Most foreign exchange trading involves the exchange of U.S. dollars for other currencies.

7. The U.S. dollar is called a _____ because it is often used as an intermediary to accomplish trading between two other currencies.
 - a. vehicle currency
 - b. main currency
 - c. common currency
 - d. primary currency

8. Suppose the dollar per pound exchange rate is \$2 per pound while the dollar per Swiss franc exchange rate is 50 cents per franc. From the given information we can conclude that the Swiss franc per pound exchange rate is:
 - a. 1 franc per pound.
 - b. too low.
 - c. too high.
 - d. 4 francs per pound.

9. Which of the following is NOT a function of the interbank part of the foreign exchange market?
 - a. Provides a bank with a continuous stream of information on conditions in the foreign exchange market

- b. Provides a bank the means to readjust its own position quickly and at low cost when it separately conducts a large trade with a customer
 - c. Permits a bank to take on a position in a foreign currency quickly if the bank and its traders want to speculate on exchange-rate movements in the near future
 - d. Provides clearing services for organizations that prefer to use different currencies
10. The 2004-2014 rapid growth in global foreign exchange trading can be explained by:
- a. large increases in trading by hedge funds, pension funds, and other financial institutions.
 - b. increases in volume of global trade in the recent years.
 - c. volatility in U.S. long term government bond yields.
 - d. increase in the number of nations adopting floating exchange rate system.

Essay Question:

Explain how the following factors affect the value of dollar vis-à-vis other currencies under a floating exchange rate system.

- a. Tariffs and quotas are placed by the U.S. government on all imports into the country.
- b. Demand by foreign consumers for the U.S. exports falls and the U.S. demand for imports rises.