

EE452 International Monetary Economics Midterm Exam

Sample Questions

Prof. Kiatipong Ariyapruchya

Calculators are permitted. Notes, books, phones or other materials are not permitted. All questions will be answered in pen or pencil written legibly on the exam. Explain your answers using material from this course. **Please note that this is just a sample. The number of short answers and problems may vary in the midterm.**

Section A. Short Answers (True / False)

1. In the study of economics, international trade and international monetary economics are treated as different subjects because they are far removed from one another.
2. Explain the difference between GNP and GDP.
3. In a closed economy total savings need not equal total investment.
4. What is the interest rate parity condition?
5. Spot and forward exchange rates tend to move together.
6. Exchange-rate overshooting is used to explain why exchanges rate tend to be too appreciated.
7. The empirical support for PPP and the law of one price is weak in recent data.

Section B. Problems

1. Show why a rise in the expected future exchange rate leads to a rise in the current exchange rate.
 - a. Illustrate using theoretical frameworks learnt in class as well as a supporting graph.
2. Last week, official statistics showed that GDP growth has been higher than expected. What do you expect to be the short-run effect on the exchange rate given expectations about future exchange rates.
3. Read the article on Big Mac Index "Bun fight" (handout <http://www.economist.com/news/finance-and-economics/21571165-currency-wars-burgers-verdict-bunfight?fsrc=nlw%7Cchig%7C1-31-2013%7C4825845%7C36092425>)
 - a. Does the Big Mac Index use the absolute or relative PPP? Why?
 - b. What are the advantages and disadvantages of the Big Mac Index?

Student _____