**International Financial Markets**

**EBF 338**

**Tutorial**

**Home Work 1**

Following are 33 questions, each worth 3 points. Indicate the answers you think most correct.

***International Payments and Exchange***

1) Globalization includes which of the following ideas?

A) increasing market integration

B) the expansion of world governance and global society

C) the increased mobility of peoples and information

D) all of the above

2) International economic integration refers to

A) the expansion of world governance and global society.

B) the increased mobility of peoples and information.

C) the strengthening of existing international linkages of commerce and the addition of new linkages.

D) the increasing of market integration.

3) When someone talks about "invisibles" with respect to globalization, they are referring to

A) individuals left behind in the development process.

B) the flow of funds that takes place behind the scenes.

C) the increase of trade in services.

D) the influence of government policies that is often not measurable.

4) The real sector of an economy refers to transactions in

A) the production and sale of domestic goods and services.

B) domestic financial assets.

C) the production and sale of domestic and global goods and services.

D) domestic and global financial assets.

5) International Economic Integration incorporates

A) only real sector transactions.

B) only financial sector transactions.

C) both real and financial sector transactions.

D) neither real nor financial sector transactions.

6) Which of the following best describes the way we account for trade in the U.S.?

A) We include it as part of GDP.

B) We use a single entry system similar to how we account for GDP.

C) We use a double entry accounting system to measure the total value of our transactions with the world.

D) We use a double entry system that compares domestic transactions to foreign transactions.

7) The \_\_\_\_\_\_\_\_ account is an account that keeps track of transfers or gifts between nations.

A) unilateral transfers

B) bilateral negotiations

C) capital

D) official settlements

8) Given the following information, what is the current account balance for this country? Merchandise trade balance = -300B, Services trade balance = +75B, unilateral transfers made in excess of those received = 60B

A) -165B.

B) -285B.

C) -315B.

D) -435B.

9) Over the last twenty years, the U.S. has generally had a current account \_\_\_\_\_\_\_\_ and a capital account \_\_\_\_\_\_\_\_.

A) surplus, surplus

B) surplus, deficit

C) deficit, surplus

D) deficit, deficit

10) The United States can be called a net debtor nation. This means that

A) the value of U.S. assets held abroad is worth less than the value of foreign assets held in the U.S.

B) the U.S. government owes more money than it takes in.

C) the value of the U.S. currency is less than the value of currencies for our main trading partners.

D) the U.S. manufactures more goods abroad than it manufactures domestically.

**The Market for Foreign Exchange**

1) When international banks conduct daily trades of different currencies valuing in the millions of dollars

A) they are using the spot market.

B) they are using the forward market.

C) they are using the futures market.

D) they are using the stock markets.

2) If a trader thinks that the value of yen with respect to the euro is about to fall, which of the following would enable him to make a profit?

A) buy a forward contract for euros

B) buy a forward contract for yen

C) sell yen in the spot market

D) buy euros in the spot market

3) You have the following data about the exchange rates between the Brazilian Real and the Guatemalan Quetzal.

June 1, 2011 0.6752 Reales / Quetzales

June 1, 2012 0.3481 Reales / Quetzales

From this data you may conclude that

A) the Real depreciated.

B) the Quetzal appreciated.

C) the Quetzal depreciated.

D) the Real was revalued.

4) On your first day at work, your boss tells you to call the bank and get the bid and the ask for British pounds. Having just returned from studying in London, you know that the exchange rate should be somewhere around 1.25. You call the number and the lady says "579 and 585." What does that mean?

A) She didn't understand your question.

B) The bid is 0.579 and the ask is 0.585.

C) The ask is 0.579 and the bid is 0.585

D) The bid is 1.2579 and the ask is 1.2585.

5) In order to determine how strong or weak a currency is, you should look at the

A) effective exchange rate.

B) real exchange rate.

C) bilateral exchange rate.

D) forward exchange rate.

6) If the bid price is 1.84 and the ask price is 1.96, what is the bid-ask margin?

A) 12%

B) 1.2%

C) 6.1%

D) 6.5%

7) SDRs, the currency of the IMF is an example of

A) a composite currency.

B) a real effective exchange rate.

C) a potential replacement for a nation's currency.

D) a purchasing power parity currency.

8) If a trader purchases Swiss Francs in New York, sells the Francs for Pounds in London, and finally sells the pounds for dollars in Geneva, he is pursuing

A) effective exchange rates.

B) spatial arbitrage.

C) triangular arbitrage.

D) an illegal transaction.

9) In its simplest form, purchasing power parity would mean that a good in one country

A) would have the same exchange-rate adjusted price in another country.

B) will be available for sale in another country.

C) will reflect the exchange rate in another country.

D) will reflect the transportation cost differences in another country.

10) The CPI in Holland is 124, and the CPI in Israel is 186. If absolute purchasing power parity holds then the Euro/Shekel exchange rate should be

A) 0.667.

B) 1.5.

C) 2.6.

D) cannot be determined by the information given.

***Exchange Rate Systems – Past and Present***

1) Which of the following is the best definition of monetary order?

A) a set of laws that establishes the framework for the economy to settle and conduct transactions

B) a set of rules for how money will be printed and counted within an economy

C) the policies that govern what will be considered money in an economy

D) the policies that establish the exchange rate system in an economy

2) The difference between commodity money and fiat money is that

A) commodity money is backed by gold, and fiat money is not.

B) commodity money is backed by a tangible asset, and fiat money has no backing.

C) commodity money has nothing behind it, while fiat money is backed by a government's gold reserves.

D) commodity money is made from commodities, and fiat money is made from Italian paper.

3) The official price of golds in terms of the national currency is known as

A) the convertibility factor.

B) the exchange rate.

C) the mint parity rate.

D) the mint stock rate.

4) One advantage to using gold as the basis for a currency is that

A) the supply of gold is rather constant over time.

B) gold is considered valuable by everyone.

C) gold is an important raw material for production.

D) gold is easily minted into coins.

5) One disadvantage of gold as the basis for a currency is

A) gold is difficult to transport in large quantities.

B) a new discovery of gold could quickly change the value of the currency.

C) a gold standard can be costly to maintain if the currency comes under speculation.

D) all of the above.

6) The result of British currency policy after World War I

A) left the country with painfully high interest rates and unemployment for years.

B) left the country well positioned for the roaring twenties that followed.

C) gave the country a tremendous advantage when the Smoot-Hawley Act was passed in the U.S.

D) left the country at a tremendous disadvantage when the Smoot-Hawley Act was passed in the U.S.

7) Under the Bretton Woods system, participating countries

A) pegged their currencies to the U.S. dollar.

B) maintained a fixed exchange rate with gold.

C) allowed their currencies to float freely.

D) pegged their values to the British pound.

8) If the U.S. dollar is pegged to gold, then

A) the Federal Reserve must adjust the supply of U.S. dollars when the price of gold changes.

B) the government must buy and sell gold reserves when the price of the dollar changes.

C) the U.S. dollar will not change in value since the price of gold is constant.

D) the U.S. dollar would become more valuable than the Euro.

9) Under the Bretton Woods system, if West Germany needed to change its parity rate with the U.S. dollar so that a person might offer fewer Deutsch marks to buy one dollar, then they would be

A) revaluing their currency.

B) devaluing their currency.

C) appreciating their currency.

D) depreciating their currency.

10) The U.S. dollar is one of the leading reserve currency in the world. This means that

A) dollars are often used to settle international debts and to state other currency exchange values.

B) dollars are the most common currency for savings internationally.

C) dollars are held to cover shortfalls in government budgets.

D) dollars are accepted in just about every country in the world.

11) The Bretton Woods system ended when

A) President Nixon announced that the dollar was no longer convertible to gold.

B) speculators forced the UK treasury to devalue the pound.

C) speculators put pressure on the dollar because it was believed to be overvalued.

D) the French could not afford their loan repayment to the IMF.

12) What is the difference between the Bretton Woods system and the system established at the Smithsonian meeting?

A) The Smithsonian Agreement had wider parity bands with new par values.

B) The Smithsonian Agreement had wider parity bands with the same par values.

C) The Smithsonian Agreement had narrower parity bands with new par values.

D) The Smithsonian Agreement had narrower parity bands with the same par values.

13) If the U.S. dollar and British pound have a flexible exchange rate, and the U.S. dollar changes so that one needs more dollars to buy one pound, the currency has

A) depreciated.

B) appreciated.

C) devalued.

D) revalued.