

NAME
SURNAME
Matr.

International Economics – Finance

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Exam – 21 July 2022 Program 2021/22 (A1)

Notes:

- Only this text should be handed. Underline the correct answer for each exercise. No answer, wrong answer, more than ONE answer means 0 points.
- The final grade will be calculated by summing scores on the 6 best answers.

Exercise 1. (5 points)

Which of the following statements is true?

- a) The Capital Account of the Balance of Payments includes Foreign Direct Investments.
- b) When domestic firms build a factory in another country, they make Greenfield Foreign Direct Investments
- c) The Deficit of the Balance of Payments (from an economic point of view) is equal to Statistical Discrepancy.
- d) The formula $E = P/P^*$ defines the effective exchange rate.
- e) None of the other statements are true.

Exercise 2. (5 points)

Write the formula of the 'Covered interest arbitrage condition' for an EU speculator who finds a one-year financial investment in the US convenient. Detail the meaning of the symbols used:

$$(1+i(\text{US})) \cdot E(+1) / E > (1+i(\text{EU}))$$

where:

$i(\text{US})$ =interest rate in the US

$i(\text{EU})$ =interest rate in the EU

E =nominal Exchange rate current year

$E(+1)$ =nominal Exchange rate next year

Exercise 3. (5 points) Miss XX is an EMU resident, and she should choose between two similar personal computers:

- that one produced in the US costs 400\$,
- that other produced in the EMU costs 340€.

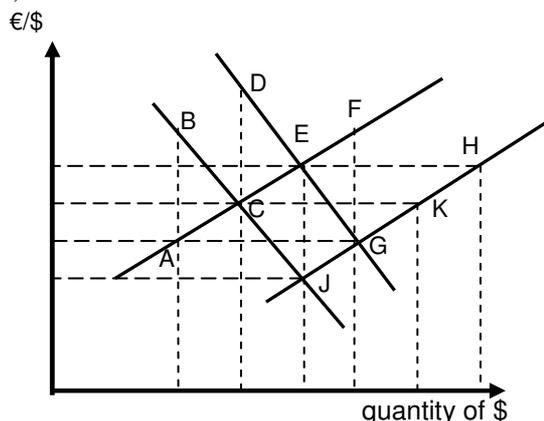
If the exchange rate is 0.8€ per 1\$, which is more convenient? Explain the answer.

The US pc because it costs 400\$ times 0.8 €/ \$ = 320 € (< 340€ of EMU pc).

Or 340/0.8=425 (>400\$ of US pc)

Exercise 4. (5 points) The figure below represents the foreign exchange market, where €/ \$ is the exchange rate in the price quotation system. If the supply (function) of \$s shifts leftwards starting from the equilibrium point G, and if the exchange rate is flexible, which of these is the right consequence on the exchange rate €/ \$?

- a) it appreciates and the new equilibrium point is J
- b) it depreciates and the new equilibrium point is J
- c) it appreciates and the new equilibrium point is C
- d) it depreciates and the new equilibrium point is C
- e) none of the other answers are true



Exercise 5 (5 points)

Which of the following statements is true?

- a) Depreciation is an effective policy to dampen inflation.
- b) An autonomous reduction of exports (X) shifts the Aggregate Demand (AD) on the right.
- c) **An advantage of the flexible exchange rate system is that it saves official reserves in case of tendency to depreciation.**
- d) The main macroeconomic policies are two: fiscal policy and monetary policy, both run by the government.
- e) None of the other statements are true.

Exercise 6 (5 points)

Which is the effect of a reduction of taxes in the fixed exchange rate regime (if capitals are very mobile)?

- a) It improves the Current Account of BoP
- b) It reduces the demand for domestic money
- c) **It improves the Financial Account of BoP**
- d) Official reserves do not change.
- e) None of the previous answers are correct.

Exercise 7 (5 points)

Which of the following statements is true?

- a) Growth of Total Factor Productivity is usually measured directly on the field
- b) The export-led model of growth recommends real appreciation of the domestic currency
- c) The fact that growth of the ratio of export/GDP is positively correlated with GDP growth implies that the former causes the latter.
- d) The export-led model of growth is typical of Latin American countries.
- e) **None of the other statements are true.**