

NAME
SURNAME
Matr.

International Economics – Finance

Prof. Maurizio Pugno

Exam – 22 Jan. 2024 (A1)

Type of exam attended:

- ☐ only the Finance part (25 minutes). The exam must be completed with the Trade part by 2024;
☐ complete, i.e. Trade+Finance (50 minutes). It is NOT possible to keep a positive result if one part and repeat the other.

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.
- Positive results of the complete exam are automatically registered within 3 days after their publication in the following website: <http://mauriziopugno.com/en/didattica/>. Rejections must be communicated on time to the professor by email (m.pugno(at)unicas.it).

Exercise 1. (2.5 points)

What is the Balance of Payments item called when it reports the foreign purchase of stocks issued by domestic companies?

Portfolio investment

.....

With what sign is it reported?

Positive

Exercise 2. (2.5 points)

Which of the following statements is true?

- a) If the Official reserves diminish, the (accounting) Balance of Payments with a balance of 0 reports that item above the line with a negative sign.
- b) Special Drawing Rights are stocks issued by companies when they are illiquid.
- c) The Current Account balance and the Financial Account balance usually go in the same direction over time.
- d) The Price quotation system of the exchange rate measures the value of exports and imports.
- e) **None of the other statements are true.**

Exercise 3. (2.5 points) Let us consider the foreign exchange market where €/£ is the exchange rate in the price quotation system. If the supply (function) of \$s shifts rightwards, and if the exchange rate is flexible, which of the following is the right consequence on the exchange rate €/£?

- a) **€/£ appreciates and it decreases**
- b) €/£ depreciates and it decreases
- c) €/£ appreciates and it increases
- d) €/£ depreciates and it increases
- e) none of the other answers are true

Exercise 4. (2.5 points) What is the real exchange rate?

The real exchange rate (RE) is the nominal exchange rate (E) divided by the ratio of the domestic consumer price index (Pd) to the consumer price index in the foreign nation (Pf).

....**RE=E/(Pd/Pf)**

Exercise 5. (2.5 points) Which is the effect of an increase of taxes in the fixed exchange rate regime (if capitals are very mobile)?

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

Exercise 6 (2.5 points) What is the effect of a decrease in the price of imports compared to the domestic price?

- a) it discourages the domestic demand for imports (less units bought);
- b) each unit costs more;
- c) If imports are very substitutable with domestic products, imports decrease;
- d) If imports are not substitutable with domestic products, the value of imports do not change;
- e) **None of the other statements are true.**

Exercise 7. (2.5 points)

Which of the following statements is true?

- a) 'Twin deficits' usually mean a deficit in both the Trade Account and the Income Account of the Balance of Payments.
- b) Bank illiquidity always leads to banking crisis.
- c) **The export-led model of growth is typical of some Asian countries.**
- d) An increase of the income elasticity of demand for exports in the 'CA constrained growth model' triggers a permanent depreciation of the domestic currency.
- e) None of the other statements are true.