

NAME

SURNAME

Matr.

International Economics – Finance

Prof. Maurizio Pugno

Exam – 22 Jan. 2024 (B1)

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 domestic purchase of stocks issued by foreign companies?

Portfolio investment

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With what sign is it reported?

Negative

Exercise 2. (2.5 points)

Which of the following statements is true?

- a) If the Official reserves rise, the (accounting) Balance of Payments with a balance of 0 reports that item above the line with a positive sign.
- b) Special Drawing Rights are stocks issued by banks when they are illiquid.
- c) The Capital Account includes the Financial Account.
- d) The measure of the exchange rate in the Price quotation system is the inverse of that in the Volume quotation system.**
- 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 \$ shifts leftwards, 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 forward exchange rate?

The forward exchange rate is the price of a currency that will be delivered in the future

Exercise 5 (2.5 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 home money,
- c) It worsens the Financial Account of BoP,
- d) Official reserves do not change.
- e) None of the previous answers are correct.**

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

- a) it encourages the domestic demand for imports (more units bought);
- b) each unit costs less;
- c) If imports are very substitutable with domestic products, imports increase;
- d) If imports are very substitutable with domestic products, imports diminish;**
- 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 Current Account and the Capital Account of the Balance of Payments.
- b) Restructuring foreign debt usually reassures foreign investors.
- c) A country is vulnerable to a crisis if its absolute level of debt is high.
- d) In the 'CA constrained growth model' the relative PPP theory applies.**
- e) None of the above statements are true.