

NAME . . . . .  
SURNAME . . . . .  
Matr. . . . .

**International Economics – Finance**

*Prof. Maurizio Pugno*

**Exam – 22 Jan. 2024 (C1)**

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 building of new factories abroad by domestic firms?

**Greenfield Foreign Direct Investments**

.....

With what sign is it reported?

**Negative** .....

**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 positive sign.**
- b) Special Drawing Rights are included in the item 'Portfolio investments' of the Balance of Payments.
- c) The Financial Account includes the Capital Account.
- d) The Volume quotation system of the exchange rate measures the quantity in real terms 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 demand (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) €/£ does not change
- e) none of the other answers are true**

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

**The effective exchange rate is a weighted average of the exchange rates between the domestic currency and that of the nation's most important trade partners.**

**Exercise 5. (2.5 points)** Which is the effect of a restrictive monetary policy in the fixed exchange rate regime?

- a) It is not very effective in reducing GDP if capitals are very mobile.**
- b) It reduces the domestic interest rate.
- c) Official reserves do not change.
- d) It worsens the Current Account.
- e) None of the previous answers are correct.

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

- a) it encourages the domestic demand for imports (more units of imports bought);
- b) if imports are not substitutable with domestic products, units of imports diminish;
- c) If imports are not substitutable with domestic products, the value of imports increase;**
- d) each unit of imports costs less;
- 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 Financial Account of the Balance of Payments.
- b) Financial liberalization makes a banking crisis less likely.
- c) Growth of Total Factor Productivity is usually measured directly on the field.
- d) The 'CA constrained growth model' assumes that production supply is infinitely elastic.**
- e) None of the previous answers are correct.