NAME . . . .

SURNAME . . . .

Matr. . . . .

International Economics – Finance
Prof. Maurizio Pugno
Exam – 19 Feb. 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 with closed answers. No-, wrong-, 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)***
Which of the following statements is true?
a) A deficit or surplus in the Balance of Payments implies that the double entry principle does not apply.
b) The Financial Account includes the Capital Account.
c) The Accounting balance cannot be in deficit or surplus.
d) The Capital Account includes FDI.
e) None of the other statements are true.

Exercise 2. ***(2.5 points)*** Which is the effect of an expansionary monetary policy in the (perfect) flexible exchange rate regime (and very mobile capitals)?
a) It is self-defeating and GDP does not increase.
b) The interest rate increases.
c) The official reserves do not change.
d) The official reserves increase.
e) None of the previous answers are correct.

Exercise 3. ***(2.5 points)***
Please list at least three restrictive assumptions under which the Purchasing Power Parity theory holds:

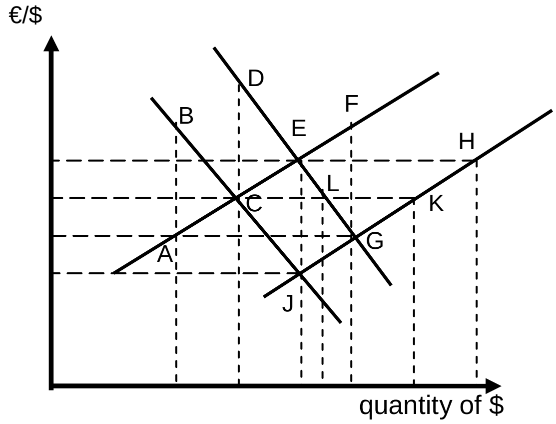
(i) goods flow costlessly across internati. borders

(ii) . . . . . all goods and services can be traded

(iii) . . no tariffs are levied. . . .

(iv) . capital flows are disregarded. . . .

Exercise 4. ***(2.5 points)*** The figure below represents the foreign exchange market, where €/$ is the exchange rate in the price quotation system. If the demand (function) of $s shifts rightwards starting from the equilibrium point C, and if the exchange rate is in the fixed regime, which of these is the right consequence on the exchange rate €/$?
a) it depreciates and the new equilibrium point is E
b) it appreciates and the new equilibrium point is E
c) it depreciates and the new equilibrium point is G
d) it neither depreciates nor appreciates and the new equilibrium point is L
e) none of the other answers are true



Exercise 5. ***(2.5 points)*** Which of the following statements is true?
a) Depreciation encourages inflation.
b) A country's financial crises are often very predictable.
c) The long-run imports and exports elasticities are smaller than the short run elasticities.
d) The increase of (autonomous) exports shifts the Aggregate Demand (AD) on the left.
e) None of the other statements are true.

Exercise 6 ***(2.5 points)*** Which of the following statements is true?
a) Banks are in a vulnerable position if their borrowing is long term and their lending is short term.
b) The export-led model of growth is a supply-side model.
c) The contribution of Total Factor Productivity to economic growth in East-Asian countries is much greater than that of the US.
d) The 'CA constrained growth model' assumes that (absolute) PPP theory holds true.
e) None of the above statements are true.

Exercise 7 ***(2.5 points)*** What is the (Marshall-Lerner) elasticity condition for a devaluation to improve the Trade Balance?
The sum of the export- and the import-elasticity with respect to the exchange rate is high, i.e. greater than 1