NAME . . . .

SURNAME . . . .

Matr. . . . .

International Economics – Finance

Prof. Maurizio Pugno

Exam – 19 Feb. 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 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) The Current Account and the Financial Account tend to have specular changes.

b) Including the Statistical Discrepancy makes the Balance of Payments (BoP) in equilibrium, i.e. with the economic balance equal to zero.

b) The double entry principle eliminates the possibility of a country running into a deficit of the BoP.

d) The Trade Account includes the exchanges of bonds.

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?

a) The interest rate does not change.

b) The official reserves increase.

c) The Current Account improves.

d) The Financial Account improves.

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 supply (function) of $s shifts rightwards starting from the equilibrium point C, and if the exchange rate is in the fixed regime, which of these is the right consequence on the exchange rate €/$?

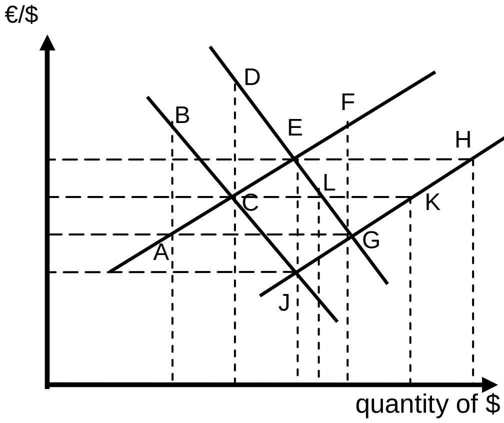
a) it depreciates and the new equilibrium point is E

b) it appreciates and the new equilibrium point is E

c) it neither depreciates nor appreciates and the new equilibrium point is K

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 discourages inflation.

b) A country's financial crises are often very predictable.

c) The long-run imports and exports elasticities are greater 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) Bank illiquidity always leads to banking crisis.

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