1. According to PPP, if the price level in the U.S. in 1998 is 120, and the price level in Canada is 110, the $/C$ exchange rate for 1998 is approximately

A. 1.09
B. 0.92
C 1.10
D. 1.20
E. none of the above

2. If the inflation rate in the U.S. is 4% in 2005, and the German inflation rate is 6% in 2005, then according to relative PPP

A. $ depreciates in 2005
B. € depreciates in 2005
C. $ and € are trading at parity
D. none of the above

3. If the domestic and the foreign interest rates are 12% and 10% respectively, then according to uncovered interest rate parity

A. foreign currency is expected to appreciate by 4%
B. foreign currency is expected to appreciate by 2%
C. foreign currency is expected to depreciate by 4%
D. foreign currency is expected to depreciate by 2%.

4. If the expected $/£ spot rate one year from now is $0.50/£ and the current spot rate is $0.52/£, we expect the current

A. U.S. interest rate to be higher than the U.K. interest rate
B. U.K. interest rate to be higher than the U.S. interest rate
C. both the U.S. and the U.K. interest rates are the same
D. insufficient information to tell

5. The effective exchange rate is

A. a bilateral exchange rate
B. the same as the real exchange rate
C. a multilateral exchange rate against a basket of foreign currencies
D. the actual exchange rate that international transactions take place

6. Given that in 2010, the $/€ exchange rate is $0.698/€, and the German CPI is 119, the U.S. CPI is 117. What is the real $/€ exchange rate for 2010?

7 Suppose the following bilateral spot exchange rates are being quoted for the Danish krone (DKK), the US dollar (US$) and the euro (€):
US$/€=1.5, DKK/€=7.0, DKK/$,=5.0 , If you start with 100€, the most you could end up with in a single round of triangular arbitrage would be...

A 93.33
B 98.66
C 103.25
D 107.14

8. Assume the British pound is worth $1.60, and the Canadian dollar is worth $.80. What is the value of the Canadian dollar in pounds?

A 2.0
B 2.40
C 0.80
D 0.50

9. You can exchange $1 for either .7707 euros or .5331 British pounds. What is the cross rate between the pound and the euro?

A £ 0.5331€
B £ 0.5431€
C £ 0.6917€
D £ 0.5501€

10. Suppose a deposit in New York earns 6 percent a year and a deposit in London earns 4 percent a year. Interest rate parity holds if the

A U.S. dollar depreciates by 2 percent a year.
B U.S. dollar appreciates by 2 percent a year.
C U.K. pound depreciates by 2 percent a year.
D None of the above answers is correct because interest rate parity requires that the interest rates be the same in both countries.

11. Today the U.S. dollar is worth 1.5 Canadian dollars. By the end of the month, it is expected that the U.S. dollar will be worth 1.2 Canadian dollars. This belief

A: decreases the value of exports to Canada.
B: decreases the demand for Canadian dollars.
C: increases the demand for U.S. dollars.
D: decreases the demand for U.S. dollars.

12. If the prices in the EU countries rise faster than those in other countries,

A: then interest rate parity must not hold.
B: the exchange rate falls.
C: the interest rate in the EU countries falls.
D: the exchange rate rises

13: Which of the following cause an appreciation of the domestic currency?

A: A higher domestic interest rate due to a higher expected inflation rate
B: A decline in the domestic real interest rate
C: A decrease in the domestic money supply
D: An increase in the domestic money supply

14: If a 'Big Mac' costs 50 Czech korunas in Prague and 30 Ruritanian doppels in Stelsau, the capital of Ruritania, the Big Mac implied exchange rate is:

A: CKr 0.6000 = 1 doppel
B: CKr 1.6667 = 1 doppel
C: .6667 doppels = 1 CKr
D: Both (A) and (B)