

**You have 60 minutes to complete this part of the exam. The total number of credits for all questions is equal to 60. That implies that, as a rule of the thumb, you should spend 1 minute to gain one credit.**

**You may use a pocket calculator.**

# Good luck!

**Question 1** (6 credits)

Enter the following transactions into Germany's balance of payments.

- a. A German company sells 200 cars in the US: 4 Mio.€
- b. German tourists spend 200 Mio. € on vacation in Spain.
- c. A German bank runs a call center in Ireland to service German clients who pay 1 Mio. € for this service.
- d. Germany pays development aid to other countries: 5 Mio. €
- e. A German company makes interest payments to a French bank: 1 Mio. €
- f. A Greek investor buys a house in Berlin: 1.5 Mio €

**Question 2** (8 credits)

The table below lists the local currency prices of Big Macs in 2 countries and the exchange rates (x-rates) of the 2 currencies against the US dollar. In the US, the BigMac costs 4.8\$.

Country	local_price	dollar_x-rate	PPP x-rate	over- under valuation in %
Argentina	33.0 Peso	14.0 Peso/\$		
Brazil	13.5 Real	2,5 Real/\$		

For the two countries: calculate

- the purchasing power parity of the local currency against the US dollar and
- the over- or undervaluation in %. (add an "o" for over valuation and a "u" for undervaluation)

**Question 3** (6 credits)

Why can there be deviations from Absolute Purchasing Power Parity (APPP)? Give three reasons (with short explanations).

**Question 4** (6 credits)

Describe three possible risks in the construction phase of a processing plant. Assign a grade of severity and probability of occurrence to each risk identified. Which respective mitigation possibilities do you see?

**Question 5** (4 credits)

Why is the US Dollar involved in almost all foreign exchange market transactions?

**Question 6** (4 credits)

The spot rate is 0.9 EUR/USD, the 3-months dollar interest rate is 6%, the 3-month euro interest rate is 2%. Calculate the 3-months forward rate.

**Question 7** (4 credits)

Can you provide an economic explanation for the fact that the forward rate of the Euro (price notation) is higher than the spot rate whenever the euro interest rate is higher than the dollar interest rate?

**Question 8** (4 credits)

You need to buy 100,000 SFR. Given the quotes below, would you rather buy SFR directly or indirectly? Why?

SFR/EUR : 1.10

USD/EUR : 1.08

SFR/USD : 1.03

**Question 9** (6 credits)

Some commentators argue that Italy needs to depreciate in “real terms” vis-à-vis Euro member states such as the Netherlands or Germany. Would such a real depreciation be possible in a currency union? Short explanation.

**Question 10** (6 credits)

What is the relationship between uncovered interest parity (UIP) and covered interest parity (CIP)?

**Question 11** (6 credits)

Calculate the effective exchange rate of the Euro.

Period	1999-1	1999-2	1999-3
Exchange rates (fx/EUR)			
USD	1.21	1.24	1.23
JPY	131	125	117
Trade shares (in %)			
US	66	68	75
JP	34	32	25