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/\$	×1	X3
Brazil	13.5 Real	2,5 Real/\$	x <sub>2</sub>	Xy

#### 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)

(Slide 127-129)

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

1) Not every country has the same basket of goods I demand student 2) Include taxiffs and non-taxiff barriers to trade I Transport (3) Differences in prefacences ]

4) Non-tradeable goods

#### Question 4 10

Describe three possible risks a processing plant. Assign a grade of severity and probability of occasion by 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?

The US-Pollar is a "vehicle currency"

The veduces the amount of markets to (n-1)

This makes the markets more liquid and reduces

transaction costs

This a result, it is chappen to carry out 2 transactions

in liquid markets than one transaction in an

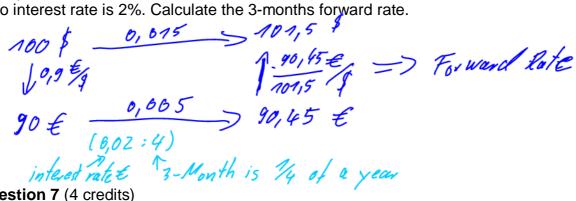
illiquid market

Reasons: US holds global tout & confidence in its

ability to pay its obligations

### 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

100 000 SFR: 1,10 SFR = 98909,09€

**USD/EUR**: 1.08

SFR/USD: 1.03) indirect

 $90909,09 \in .1,08$  . 1,03  $\frac{SFR}{S} = 101.127,27$  SFR Convert into SFR higher value

100 € · 1,10 \$FR = 110 SFR

1.1124 SFR => indirect way better

#### Question 9 (6 credits)

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

This is the Balassa-Samuelson Effect (== appreciation)

Slide 138

It is possible, however, the Balassa-Samuelson

Effect looks at it in the case of economic

growth (= catching up), which leads to the
appreciation

#### Question 10 (6 credits)

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

UIP = dealing with an expected return

15 forecasting rates

27 the exchange rate risk is uncovered

(no forward trades etc.)

## Question 11 (6 credits)

Period

Calculate the effective exchange rate of the Euro.

1999-2

1999-1

	Exchange rat	es (fx/EUR)					
	USD	1.21	1.24	1.23			
	JPY	131	125	117			
	Trade shares (in %)						
	US	66	68	75			
	JP	34	32	25			
100	lex	1999-1		1999-3			
Erch	lex lange Nate	100	1,24 100; 125 102; 131 100;	$\frac{1,23}{1,21} \cdot 100 = 101,65$ $= \frac{117}{131} \cdot 100 = 89,31$			
ī	Trade Vol	une as	weighte d				

1999-3