

1. An appreciation of the dollar against the euro has occurred. What could not be a possible explanation of the appreciation?

- (a) The eurozone interest rate went down
- (b) The US GDP declined
- (c) The US inflation rate rose
- (d) None of the above

2. The purchasing power parity exchange rate between dollar and euro is the exchange rate that makes equal

- (a) the price of the eurozone basket of goods that defines the eurozone CPI and the price of the US basket of goods that defines the US CPI, when both prices are measured in euros.
- (b) the eurozone GDP growth rate and the US GDP growth rate.
- (c) the rate of return of a typical financial asset from the eurozone and the rate of return of a typical financial asset from the US.
- (d) None of the above

3. If the eurozone CPI is $P = 400$ and the US CPI is $P^* = 50$,

- (a) the value of the real exchange rate is 8.
- (b) the value of the nominal exchange rate is 8.
- (c) the market nominal exchange rate between euro and dollar may differ from the corresponding purchasing power parity exchange rate.
- (d) None of the above

4. Which option is not false?

- (a) None of the following
- (b) The impossible trinity relates democracy, the policy interest rate, and capital controls under a flexible exchange rate.
- (c) The real interest rate can be used to measure the competitiveness of an economy.
- (d) According to the interest parity, the euro should be expected to depreciate against the dollar when the US interest rate doubles the eurozone interest rate.

5. What is the likely effect on the equilibrium exchange rate e (expressed in $\text{€}/\text{\$}$) when the US and the eurozone inflation rates both rise?

- (a) None of the following
- (b) e necessarily falls.
- (c) e tends to rise if the inflation rate increase is considerably larger in the eurozone than in the US.
- (d) It is impossible for e to remain constant.

6. Which option is not true?

- (a) The relative purchasing power parity condition holds that the euro appreciates against the dollar if the eurozone inflation rate is smaller than the US interest rate.
- (b) Triangular arbitrage is possible when the exchange rates are $2 \text{ €}/\text{£}$, $2 \text{ €}/\text{\$}$, and $2 \text{ £}/\text{\$}$.
- (c) With respect to its purchasing power parity value, the dollar is overvalued against the euro if the market exchange rate is $2 \text{ €}/\text{\$}$ and the parity value is $2 \text{ \$}/\text{€}$.
- (d) A change in the official exchange rate from $2 \text{ \$}/\text{€}$ to $2 \text{ €}/\text{\$}$ could represent a devaluation of the euro.



Write your answers in MINUSCULE (lower case letter) in only ONE of the following tables

Use Table 1 if you give at most one answer to each question

Use Table 2 if you want to give two answers to some question

No answer: +0 · Correct answer: +1 · Incorrect answer: -1/3

Table 1

1	2	3	4	5	6

No answer: +0 · Only one answer: if correct, +1; if incorrect, -1/3.

Two answers: if one correct, +1/2; if none correct, -1/2.

Table 2

1	2	3	4	5	6