

ECON 101, Sen Finance Final
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Ques 1 I) Ricardo's argument was that even if a country has an absolute disadvantage in production of all goods, it will not have a comparative disadvantage in the production of all goods. II) Ricardo showed that free trade moves the joint production possibility frontier outwards. I&II are: A) TF B) TT C) FF D) FT

Ques 2 I) The direct rate in Japan for foreign exchange quotes amount of dollars to buy 1 yen.
II) Foreign exchange markets in most countries quote direct rates, but in the US the quotes are indirect quotes. I&II are: A) TF B) TT C) FF D) FT

Information for 3 to 5: In the Indian foreign exchange market the direct quotes are INR65.77/GBP1 and INR65.93/GBP1.

Ques 3 I) The ask price must be INR65.93/GBP1 II) The bid price must be INR65.93/GBP1 I&II are: A) TF B) TT C) FF D) FT

Ques 4 If you wish to purchase GBP with INR200, you will get: A) 3.0409 B) 3.0372 C) 3.0335 D) 3.0306

Ques 5 If you take the GBP that you received from the transaction in Ques 4 and convert them to INR, you will get: A) 200 B) 200.4865 C) 199.5146 D) 199.3128

Ques 6 I) In a Bank Run a bank fails because of expectations that it will fail. II) The FDIC (Federal Deposit Insurance Corporation) insures deposits to prevent bank runs. I&II are: A) TF B) TT C) FF D) FT

Ques 7 Which of the following are NOT a way by which the FED influences economic activity? A) Buying and selling Treasuries B) Changing the Fed Discount Rate C) Changing the Income Tax Rate D) Changing the Reserve Requirements for banks. I&II are: A) TF B) TT C) FF D) FT

Ques 8 I) The most common way the FED chooses to use to influence the economy is by changing the reserve requirement. II) The FED is a department of the US Treasury. I&II are: A) TF B) TT C) FF D) FT

Ques 9 I) The US Federal government deficits are financed by bonds issued by the FED. II) The head of the Treasury is the Secretary of Treasury. I&II are: A) TF B) TT C) FF D) FT

Ques 10 I) The Quantity Theory of Money says that an increase in money supply will result in a proportionate increase in Price Level. II) Central banks usually raise interest rates to dampen economic activity if it appears that inflation is increasing. I&II are: A) TF B) TT C) FF D) FT

Ques 11: Pepsi is an American company that earns revenues in the India. It has INR5 B revenues due in 1 years time.

I) If Pepsi does not “hedge” by entering into futures contracts and it measures its costs and profits in dollars, then it will lose if the dollar appreciates against the rupee.

II) To get rid of foreign exchange risk Pepsi should enter into a foreign exchange futures contract where it is “long” INR of amount INR5 B.

I&II are: A) TF B) TT C) FF D) FT

Information for Ques 12 to 19 Suppose the riskless rate for one year in France is 7%. The riskless rate in Canada is 5%. The spot rate Canadian dollars for Euros is CAD2 / EUR1.

Ques 12 According to the spot future parity relation the Futures rate of CAD for EUR to be settled in one year should be: A)1.9626 B)2.01 C)2.038 D)2.072

Ques 13) A speculator has entered into a futures contract (settle one year) where she is long CAD and short EUR. I) Her CAD cash flows due to the futures contract are negative (futures contract requires her to pay CAD). II) Her EUR cash flows due to the futures contract are negative (futures contract requires her to pay EUR). I&II are: A) TF B) TT C) FF D) FT

Information for Ques 14 to 19 Suppose the market price of the one-year futures is CAD2.01/EUR1. Now consider a different trader.

Ques 14) I) There is an opportunity to make an arbitrage profit. II) In the arbitrage trades then in the market the trader should enter into a futures contract where he is long EUR and short CAD. I&II are: A) TF B) TT C) FF D) FT

Ques 15 After entering into the correct futures trade to make the arbitrage profits, the trader decides to make arbitrage profits, that is take the profit today itself and make future cash flows zero. Assume that the trader can both buy and sell EUR and CAD bonds discounted at the riskless rates. I) The trader should buy EUR bonds. II) The trader should buy CAD bonds. I&II are: A) TF B) TT C) FF D) FT

Information for Ques 16 to 19 Suppose the magnitude (not directions) of the futures contract in the market that the trader enters into is EUR 5 M (that is, there is a cash flow of EUR 5 M on settlement date which the trader either gives or receives accompanied by a CAD cash flow that the trader either receives or gives respectively.) Assume that the trader sets up trades to **MAKE AN ARBITRAGE PROFIT**.

Ques 16 What is the magnitude of CAD for the futures contract (that trader gives or receives)? A) CAD5 M B) CAD10 M C) CAD10.05 M C) CAD10.10 M.

Ques 17 To make the future CAD cash flows zero the trader should today: A) sell CAD bonds of price CAD 9.5714 M B) purchase CAD bonds of price CAD 9.5714 M C) sell EUR bonds of price EUR 4.6729 M D) purchase EUR bonds of price EUR 4.6729

Ques 18 To make future EUR cash flows zero the trader should today: A) sell CAD bonds of price CAD 9.5714 M B) purchase CAD bonds of price CAD 9.5714 M C) sell EUR bonds of price EUR 4.6729 M D) purchase EUR bonds of price EUR 4.6729

Ques 19 Suppose the trader takes all the money today (from the arbitrage actions answered by Ques 16 to 18 that enter into the correct side of the futures contract and make all future cash flows zero) and converts them to CAD today (using the spot market to convert EUR to CAD). Then the net amount of CAD cash the trader has today is: A) -0.2256 B) +0.2256 C) -0.2456 D) +0.2456

Ques 20 I) Lower Liquidity will result in a higher rate of return and risk premium. II) The Nominal Risk Free Return minus expected inflation is the pure return for waiting to consume. I&II are: A) TF B) TT C) FF D) FT

Ques 21 I) Balance of Payments is the net amount of money that entered or exited a country. II) Capital Account that has the balance of merchandise, balance of services, net income and current transfers. I&II are: A) TF B) TT C) FF D) FT

Ques 22 I) Financial Account has capital transactions, for example investment in factories, equity etc. II) Current Account has transfers that do not require repayments, for example aid to poor countries. I&II are: A) TF B) TT C) FF D) FT

Ques 23 I) At the beginning of the 21st century, the US was running a Current Account Surplus of about 4% of GDP. II) The Current Account Deficit has to be matched by the Financial Account Surplus plus Fall in Foreign Currency Reserves. I&II are: A) TF B) TT C) FF D) FT

Ques 24 I) A country with a high inflation rate should see its currency appreciate with time. II) A country with a high rate of interest should see its exchange rate rise with time. I&II are: A) TF B) TT C) FF D) FT

Information for Questions 25 and 26. At the beginning of year 20X1 an orange in country A costs one unit of A's currency and an orange in country B costs 3 units of B's currency.

Ques 25: Suppose Absolute PPP is true. Then the exchange rate is one unit of A's currency for: A) 0.3333 units of B's currency B) 1 unit of B's currency C) 3 units of B's currency D) insufficient information.

Ques 26 Now suppose Relative PPP is true. During the year 20X1 inflation is 3% in country A, and 7% in country B. Then at the beginning of 20X2 the exchange rate will be one unit A's of currency for: A) 0.3462 B) 0.3208 C) 3.1165 D) 2.8879

Ques 27 I) In a Pegged Exchange Rate Regime, the exchange rate is kept fixed with all other foreign currencies. II) Historically, countries that tried to keep their rates fixed finally had to abandon it due to economic compulsions. I&II are: A) TF B) TT C) FF D) FT

- 1) B
- 2) D
- 3) A
- 4) C
- 5) C
- 6) B
- 7) C
- 8) C
- 9) D
- 10) B
- 11) A
- 12) A
- 13) D
- 14) A
- 15) A
- 16) C
- 17) A
- 18) D
- 19) B
- 20) B
- 21) A
- 22) A
- 23) D
- 24) C
- 25) C
- 26) C
- 27) D