

Econ 380: International Economics
Exam #2
Answer Key

Multiple Choice

- 1.D
- 2.A
- 3.C
- 4.B
- 5.B
- 6.B
- 7.B
- 8.D
- 9.A
- 10.C

Problem #1

- a. She would have \$106,000 if she invested at home. If she invested abroad, the \$100,000 would be 150,000DM, and at 4% interest rate, that would be 156,000DM at the end of the year. When she reconverts this to dollars, this would become \$107,586, or \$1586 more than if she invested at home. The reason for this is that the DM appreciated over this time, allowing her to buy more US\$ at the end of the year as compared to the beginning of the year.
- b. At the exchange rates given, you would lose 3,254.48 IR£, or \$3578.95, by first converting to DM and then to IR£. She should convert directly from US\$ to IR£.

Problem #2

- a. 20,000
- b. 16,000
- c. TD=0, TC=400,000
- d. 4.8b