

- 1) When the value of the dollar changes from 0.5 pounds to 0.75 pounds, then
 - A) the pound has appreciated and the dollar has appreciated.
 - B) the pound has depreciated and the dollar has appreciated.
 - C) the pound has appreciated and the dollar has depreciated.
 - D) the pound has depreciated and the dollar has depreciated.

- 2) When the exchange rate for the Mexican pesos changes from 9 pesos to the dollar to 10 pesos to the dollar, then
 - A) the peso has appreciated and the dollar has appreciated.
 - B) the peso has depreciated and the dollar has appreciated.
 - C) the peso has appreciated and the dollar has depreciated.
 - D) the peso has depreciated and the dollar has depreciated.

- 3) When the exchange rate for the German mark changes from \$0.30 to \$0.50, then, holding everything else constant,
 - A) the mark has appreciated and German cars sold in the United States become more expensive.
 - B) the mark has appreciated and German cars sold in the United States become less expensive.
 - C) the mark has depreciated and American wheat sold in Germany becomes more expensive.
 - D) the mark has depreciated and American wheat sold in Germany becomes less expensive.

- 4) According to the law of one price, if the price of Colombian coffee is 100 Colombian pesos per pound and the price of Brazilian coffee is 4 Brazilian reals per pound, then the exchange rate between the Colombian peso and the Brazilian reals is:
 - A) 40 pesos per real.
 - B) 100 pesos per real.
 - C) 25 pesos per real.
 - D) 0.4 pesos per real.
 - E) none of the above.

- 5) The theory of purchasing power parity cannot fully explain exchange rate movements because
 - A) not all goods are identical in different countries.
 - B) monetary policy differs across countries.
 - C) some goods are not traded between countries.
 - D) of both (a) and (c) of the above.
 - E) of both (b) and (c) of the above.

- 6) If, in retaliation for "unfair" trade practices, Congress imposes a 30 percent tariff on Japanese videocassette recorders, but at the same time, U.S. demand for Japanese goods increases, then, in the long run,
- A) the Japanese yen should appreciate relative to the dollar.
 - B) the Japanese yen should depreciate relative to the dollar.
 - C) the dollar should depreciate relative to the yen.
 - D) it is not clear whether the dollar should appreciate or depreciate relative to the yen.
- 7) If the inflation rate in the United States is higher than that in Mexico and productivity is growing at a slower rate in the United States than in Mexico, then, in the long run,
- A) the Peso should appreciate relative to the dollar.
 - B) the Peso should depreciate relative to the dollar.
 - C) the dollar should neither appreciate nor depreciate relative to the Peso.
 - D) we cannot know whether the dollar will appreciate or depreciate since these factors offset each other.
- 8) If the Brazilian demand for American exports rises at the same time that U.S. productivity rises relative to Brazilian productivity, then, in the long run,
- A) the Brazilian real should depreciate relative to the dollar.
 - B) the Brazilian real should appreciate relative to the dollar.
 - C) the dollar should depreciate relative to the Brazilian real..
 - D) both (a) and (c) will occur.
 - E) it is not clear whether the Brazilian real should appreciate or depreciate relative to the dollar.
- 9) If the interest rate on euro-denominated assets is 7 percent and it is 5 percent on dollar-denominated assets, and if the dollar is expected to appreciate at a 4 percent rate, for Francois the Frenchman the expected rate of return on dollar-denominated assets is
- A) 11 percent. B) 9 percent. C) 5 percent. D) 3 percent. E) 1 percent.
- 10) If the interest rate is 13 percent on euro-denominated assets and 15 percent on peso-denominated assets, and if the euro is expected to appreciate at a 4 percent rate relative to the peso, then
- A) euro-denominated assets have a lower expected return than peso-denominated assets.
 - B) the expected return on euro-denominated assets in pesos is 9 percent.
 - C) the expected return on peso-denominated assets in euros is 9 percent.
 - D) both (a) and (b) of the above will occur.
 - E) none of the above will occur.

- 11) If the interest rate is 13 percent on euro-denominated assets and 15 percent on peso-denominated assets, and if the euro is expected to appreciate at a 4 percent rate relative to the peso, then
- A) euro-denominated assets have a higher expected return than peso-denominated assets.
 - B) the expected return on euro-denominated assets in pesos is 9 percent.
 - C) the expected return on peso-denominated assets in euros is 9 percent.
 - D) both (a) and (b) of the above will occur.
- 12) If the interest rate on euro-denominated assets is 13 percent and it is 15 percent on peso-denominated assets, and if the euro is expected to appreciate at a 4% rate, for Francois the Frenchman the expected rate of return on peso-denominated assets is
- A) 19 percent.
 - B) 17 percent.
 - C) 15 percent.
 - D) 11 percent.
 - E) 9 percent.
- 13) In April 2000, one U.S. dollar traded on the foreign exchange market for about 44 Indian rupees. Thus, one Indian rupee would have purchased about
- A) 0.01 U.S. dollars.
 - B) 0.02 U.S. dollars.
 - C) 0.20 U.S. dollars.
 - D) 2.00 U.S. dollars.
- 14) In April 2000, one U.S. dollar traded on the foreign exchange market for about 1.47 Canadian dollars. Therefore, one Canadian dollar would have purchased about
- A) 2.30 U.S. dollars.
 - B) 1.15 U.S. dollars.
 - C) 0.67 U.S. dollars.
 - D) 0.56 U.S. dollars.
- 15) If the dollar _____ from 1.0 European euros per dollar to 0.9 euros per dollar, the euro _____ from 1.0 dollar to 1.1 dollars per euro.
- A) appreciates; appreciates
 - B) appreciates; depreciates
 - C) depreciates; depreciates
 - D) depreciates; appreciates
- 16) If the dollar appreciates from 5 French francs per dollar to 10 francs per dollar, the franc depreciates from _____ cents to _____ cents per franc.
- A) 20; 10
 - B) 10; 20
 - C) 10; 25
 - D) 20; 25
- 17) If the exchange rate between the dollar and the euro changes from 1.0 to 1.1 euros per dollar, the
- A) euro appreciates and the dollar depreciates.
 - B) dollar depreciates and the euro appreciates.
 - C) euro depreciates and the dollar appreciates.
 - D) dollar depreciates and the euro depreciates.
- 18) If the exchange rate between the dollar and the euro changes from 90 to 95 cents per euro, the
- A) euro appreciates and the dollar depreciates.
 - B) dollar appreciates and the euro appreciates.
 - C) euro depreciates and the dollar appreciates.
 - D) dollar depreciates and the euro depreciates.
- 19) Anything that increases the demand for foreign goods relative to domestic goods tends to _____ the domestic currency because domestic goods will only continue to sell well if the value of the domestic currency is _____.
- A) depreciate; lower
 - B) depreciate; higher
 - C) appreciate; lower
 - D) appreciate; higher

- 20) When Americans or foreigners expect the return on _____ deposits to be high relative to the return on _____ deposits, there is a higher demand for dollar deposits and a correspondingly lower demand for foreign deposits.
- A) dollar; dollar B) dollar; foreign C) foreign; dollar D) foreign; foreign
- 21) If the interest rate on dollar deposits is 10 percent, and the dollar is expected to appreciate by 7 percent over the coming year, the expected return on dollar deposits in terms of the foreign currency is
- A) 3 percent. B) 10 percent. C) 13.5 percent. D) 17 percent. E) 24 percent.
- 22) As the relative expected return on dollar deposits increases, foreigners will want to hold more _____ deposits and less _____ deposits.
- A) foreign; foreign B) foreign; dollar C) dollar; foreign D) dollar; dollar
- 23) As the relative expected return on dollar deposits increases,
- A) foreigners will want to hold fewer dollar deposits and more foreign deposits.
B) Americans will want to hold more dollar deposits and less foreign deposits.
C) Americans will want to hold fewer dollar deposits and more foreign deposits.
D) Americans and foreigners will be indifferent towards holding dollar deposits or foreign deposits.
- 24) According to the interest parity condition, if the domestic interest rate is
- A) above the foreign interest rate, then there is a positive expected appreciation of the foreign currency.
B) above the foreign interest rate, then there is a negative expected appreciation of the foreign currency.
C) below the foreign interest rate, then there is a positive expected appreciation of the foreign currency.
D) below the foreign interest rate, then the interest parity condition is violated.
- 25) According to the interest parity condition, if the domestic interest rate is 10 percent and the foreign interest rate is 12 percent, then
- A) the expected appreciation of the foreign currency must be 4 percent.
B) the expected appreciation of the foreign currency must be 2 percent.
C) the expected depreciation of the foreign currency must be 2 percent.
D) the expected depreciation of the foreign currency must be 4 percent.
- 26) Which of the following cause a depreciation of the domestic currency?
- A) A higher domestic interest rate due to a higher expected inflation rate.
B) A decline in the domestic real interest rate.
C) A decrease in the domestic money supply.
D) Both (a) and (b) of the above.

- 27) Which of the following cause an appreciation of the domestic currency?
- A) A higher domestic interest rate due to a higher expected inflation rate.
 - B) A decline in the domestic real interest rate.
 - C) A decrease in the domestic money supply.
 - D) Both (a) and (b) of the above.
- 28) The ____ states that exchange rates between any two currencies will adjust to reflect changes in the price levels of the two countries.
- A) theory of purchasing power parity
 - B) law of one price
 - C) theory of money neutrality
 - D) quantity theory of money
- 29) The theory of PPP suggests that if one country's price level falls relative to another's, its currency should
- A) depreciate in the long run.
 - B) appreciate in the long run.
 - C) appreciate in the short run.
 - D) depreciate in the short run.
- 30) The PPP conclusion that exchange rates are determined solely by changes in relative price levels
- A) rests on the assumption that all goods are identical in both countries.
 - B) does not take into account that many goods and services (whose prices are included in a measure of a country's price level) are not traded across borders.
 - C) is certainly not accurate as a short-run proposition.
 - D) all of the above.
 - E) only (a) and (b) of the above.
- 31) Lower tariffs and quotas cause a country's currency to ____ in the ____ run.
- A) depreciate, short
 - B) appreciate, short
 - C) depreciate, long
 - D) appreciate, long
- 32) If a factor decreases the demand for ____ goods relative to ____ goods, the domestic currency will depreciate.
- A) foreign, domestic
 - B) foreign, foreign
 - C) domestic, domestic
 - D) domestic, foreign
- 33) The condition which states that the domestic interest rate equals the foreign interest rate minus the expected appreciation of the domestic currency is called
- A) the purchasing power parity condition.
 - B) the interest parity condition.
 - C) money neutrality.
 - D) the theory of foreign capital mobility.
- 34) Everything else held constant, when the current value of the domestic currency increases, the _____ domestic assets _____.
- A) demand for; increases
 - B) quantity demanded of; increases
 - C) demand for; decreases
 - D) quantity demanded of; decreases

- 35) Everything else held constant, when the current value of the domestic exchange rate increases, the _____ of domestic assets _____.
- A) quantity supplied; does not change B) supply; decreases
C) quantity supplied; increases D) supply; increases
- 36) An increase in the domestic interest rate causes the demand for domestic assets to _____ and the domestic currency to _____, everything else held constant.
- A) increase; appreciate B) increase; depreciate
C) decrease; appreciate D) decrease; depreciate
- 37) A decrease in the domestic interest rate causes the demand for domestic assets to shift to the _____ and the domestic currency to _____, everything else held constant.
- A) right; appreciate B) right; depreciate C) left; appreciate D) left; depreciate
- 38) _____ in the domestic interest rate causes the demand for domestic assets to increase and the domestic currency to _____, everything else held constant.
- A) An increase; appreciate B) An increase; depreciate
C) A decrease; appreciate D) A decrease; depreciate
- 39) _____ in the domestic interest rate causes the demand for domestic assets to shift to the left and the domestic currency to _____, everything else held constant.
- A) An increase; appreciate B) An increase; depreciate
C) A decrease; appreciate D) A decrease; depreciate
- 40) _____ in the domestic interest rate causes the demand for domestic assets to shift to the _____ and the domestic currency to appreciate, everything else held constant.
- A) An increase; right B) An increase; left C) A decrease; right D) A decrease; left
- 41) Suppose that the Federal Reserve enacts expansionary policy. Everything else held constant, this will cause the demand for U.S. assets to _____ and the U.S. dollar to _____.
- A) increase; appreciate B) decrease; appreciate
C) increase; depreciate D) decrease; depreciate
- 42) Suppose that the Federal Reserve conducts an open market sale. Everything else held constant, this will cause the demand for U.S. assets to _____ and the U.S. dollar will _____.
- A) increase; appreciate B) increase; depreciate
C) decrease; appreciate D) decrease; depreciate
- 43) An increase in the foreign interest rate causes the demand for domestic assets to shift to the _____ and the domestic currency to _____, everything else held constant.
- A) right; appreciate B) right; depreciate C) left; appreciate D) left; depreciate

- 44) _____ in the foreign interest rate causes the demand for domestic assets to increase and the domestic currency to _____, everything else held constant.
- A) An increase; appreciate B) An increase; depreciate
C) A decrease; appreciate D) A decrease; depreciate
- 45) _____ in the foreign interest rate causes the demand for domestic assets to decrease and the domestic currency to _____, everything else held constant.
- A) An increase; appreciate B) An increase; depreciate
C) A decrease; appreciate D) A decrease; depreciate
- 46) _____ in the foreign interest rate causes the demand for domestic assets to shift to the left and the domestic currency to _____, everything else held constant.
- A) An increase; appreciate B) An increase; depreciate
C) A decrease; appreciate D) A decrease; depreciate
- 47) _____ in the foreign interest rate causes the demand for domestic assets to shift to the _____ and the domestic currency to appreciate, everything else held constant.
- A) An increase; right B) An increase; left C) A decrease; right D) A decrease; left
- 48) _____ in the foreign interest rate causes the demand for domestic assets to _____ and the domestic currency to depreciate, everything else held constant.
- A) An increase; increase B) An increase; decrease
C) A decrease; increase D) A decrease; decrease
- 49) Suppose that the European Central Bank enacts expansionary policy. Everything else held constant, this will cause the demand for U.S. assets to _____ and the U.S. dollar to _____.
- A) increase; appreciate B) decrease; appreciate
C) increase; depreciate D) decrease; depreciate
- 50) Suppose that the European Central Bank conducts a main refinancing sale. Everything else held constant, this would cause the demand for U.S. assets to _____ and the U.S. dollar will _____.
- A) increase; appreciate B) increase; depreciate
C) decrease; appreciate D) decrease; depreciate
- 51) An increase in the expected future domestic exchange rate causes the demand for domestic assets to shift to the _____ and the domestic currency to _____, everything else held constant.
- A) right; appreciate B) right; depreciate C) left; appreciate D) left; depreciate

- 52) A decrease in the expected future domestic exchange rate causes the demand for domestic assets to _____ and the domestic currency to _____, everything else held constant.
- A) increase; appreciate
B) increase; depreciate
C) decrease; appreciate
D) decrease; depreciate
- 53) _____ in the expected future domestic exchange rate causes the demand for domestic assets to _____ and the domestic currency to appreciate, everything else held constant.
- A) An increase; increase
B) An increase; decrease
C) A decrease; increase
D) A decrease; decrease
- 54) _____ in the expected future domestic exchange rate causes the demand for domestic assets to _____ and the domestic currency to depreciate, everything else held constant.
- A) An increase; increase
B) An increase; decrease
C) A decrease; increase
D) A decrease; decrease
- 55) Suppose the Federal Reserve releases a policy statement today which leads people to believe that the Fed will be enacting expansionary monetary policy in the near future. Everything else held constant, the release of this statement would immediately cause the demand for U.S. assets to _____ and the U.S. dollar to _____.
- A) increase; appreciate
B) decrease; appreciate
C) increase; depreciate
D) decrease; depreciate
- 56) Suppose a report was released today that showed the Euro-Zone inflation rate is running above the European Central Bank's inflation rate target. This leads people to expect that the European Central Bank will enact contractionary policy in the near future. Everything else held constant, the release of this report would immediately cause the demand for U.S. assets to _____ and the U.S. dollar will _____.
- A) increase; appreciate
B) increase; depreciate
C) decrease; appreciate
D) decrease; depreciate
- 57) Suppose that the latest Consumer Price Index (CPI) release shows a higher inflation rate in the U.S. than was expected. Everything else held constant, the release of the CPI report would immediately cause the demand for U.S. assets to _____ and the U.S. dollar would _____.
- A) increase; appreciate
B) increase; depreciate
C) decrease; appreciate
D) decrease; depreciate

Answer Key

Testname: CH20_SHORT

- 1) B
- 2) B
- 3) A
- 4) C
- 5) D
- 6) D
- 7) A
- 8) A
- 9) B
- 10) E
- 11) A
- 12) D
- 13) B
- 14) C
- 15) D
- 16) A
- 17) C
- 18) A
- 19) A
- 20) B
- 21) D
- 22) C
- 23) B
- 24) A
- 25) C
- 26) D
- 27) C
- 28) A
- 29) B
- 30) D
- 31) C
- 32) D
- 33) B
- 34) D
- 35) A
- 36) A
- 37) D
- 38) A
- 39) D
- 40) A
- 41) D
- 42) A
- 43) D
- 44) C
- 45) B
- 46) B
- 47) C
- 48) B
- 49) A
- 50) D
- 51) A

Answer Key

Testname: CH20_SHORT

52) D

53) A

54) D

55) D

56) A

57) D