May Examination Period 2022-23

ECN209 International Finance *Duration: 2 hours*

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Answer ALL questions

Calculators are not permitted in this examination. Complete all rough workings in the answer book and cross through any work that is not to be assessed.

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Examiner: Dr. Nikolaos Kokonas

SECTION A

Answer True or False to the following 3 statements (questions 1-3). Explain your answer.

Question 1

"The interest parity and covered parity conditions are identical when the one-year forward rate quoted today equals the spot exchange rate people expect to materialise a year from now."

[10 marks]

Question 2

"Investors buy futures contracts to hedge against foreign currency risk."

[10 marks]

Question 3

"Purchasing Power Parity (PPP) theory is consistent with empirical evidence."

[10 marks]

SECTION B

Question 4

Discuss effective policies to stimulate the economy when the nominal interest rate hits the zero lower bound.

[20 marks]

Question 5

"The Bank of England announces its intention to buy dollar-denominated assets by selling gilts in order to devalue the pound against the dollar and stimulate aggregate demand." Discuss the validity of the statement.

[20 marks]

Question 6

Consider the AA-DD model with flexible exchange rates. Assume the economy is initially at full employment.

a) Suppose a temporary shock to the money demand pushes the economy into recession. Describe one policy intervention that takes the economy back to its pre-shock equilibrium position.

[10 marks]

b) How does your previous answer change if the temporary shock originates in the goods' market?

[10 marks]

c) The government announces its decision to spend an extra $10 billion a year on its space program forever. What is the effect of this announcement on the output and the exchange rate?

[10 marks]

End of Examination/ Dr. Nikolaos Kokonas