Queen Mary
University of London

May Examination Period 2023-24

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 avoid losses due to unexpected changes in the value of the currency."

[10 marks]

Question 3

"Trade barriers are one of different reasons that can explain why the Purchasing Power Parity (PPP) theory is not consistent with empirical evidence."

[10 marks]

SECTION B

Question 4

Suppose a permanent increase in the money supply raises real output in the short run. Is it likely the exchange rate will undershoot its long-run equilibrium value? Explain your answer.

[20 marks]

Question 5

"The Bank of England announces its intension to buy dollar-denominated assets by selling gilts in order to devalue the pound against the dollar and stimulate aggregate demand." Comment and discuss.

[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 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 output and the exchange rate?

[10 marks]

End of Examination/ Dr. Nikolaos Kokonas