14 CURRENCY EXCHANGE RATES

1. If the exchange rate between the U.S. dollar and the Canadian dollar is USD/CAD 0.6403, and the exchange rate between the Canadian dollar and the UK pound sterling is CAD/GBP 2.5207, the exchange rate between the U.S. dollar and the UK pound sterling, stated as GBP/USD, is closest to:
   (A) 0.6196.
   (B) 1.6140.
   (C) 3.9367.

2. If the current spot exchange rate for quotes of JPY/GBP is greater than the no-arbitrage 3-month forward exchange rate, the 3-month GBP interest rate is:
   (A) equal to the 3-month JPY interest rate.
   (B) greater than the 3-month JPY interest rate.
   (C) less than the 3-month JPY interest rate.

3. The spot exchange rate between the U.S. dollar and the euro is 1.2749 USD/EUR. The 90-day forward exchange rate is quoted as +12.4 points. The forward exchange rate is closest to:
   (A) 1.2761 USD/EUR.
   (B) 1.3989 USD/EUR.
   (C) 1.4329 USD/EUR.

4. An exchange rate at which two parties agree to trade a specific amount of one currency for another a year from today is best described as a:
   (A) future exchange rate.
   (B) real exchange rate.
   (C) forward exchange rate.

5. The spot rate for Japanese yen per UK pound is 138.78. If the UK interest rate is 1.75% and the Japanese interest rate is 1.25%, the 6-month no-arbitrage forward rate is closest to:
   (A) 138.10 JPY/GBP.
   (B) 138.44 JPY/GBP.
   (C) 138.95 JPY/GBP.

6. If the exchange rate value of the CAD goes from USD 0.60 to USD 0.80, then the CAD:
   (A) appreciated and Canadians will find U.S. goods cheaper.
   (B) depreciated and Canadians will find U.S. goods cheaper.
   (C) depreciated and Canadians will find U.S. goods more expensive.

7. The USD/EUR spot exchange rate is 1.3500 and 6-month forward points are -75. The 6-month forward exchange rate is:
   (A) 1.3425, and the USD is at a forward discount.
   (B) 1.3425, and the USD is at a forward premium.
   (C) 1.3575, and the USD is at a forward discount.

8. An analyst observes that one U.S. dollar is worth eight Mexican pesos (MXN) or six Polish zlotys (PLN). The value of one PLN in terms of MXN is closest to:
   (A) 7.0000.
   (B) 1.3333.
   (C) 0.7500.

9. The spot rate for Chinese yuan per Canadian dollar is 6.4440. If the Canadian interest rate is 2.50% and the Chinese interest rate is 3.00%, the 3-month no-arbitrage forward rate is closest to:
   (A) 6.436 CNY/CAD.
   (B) 6.452 CNY/CAD.
   (C) 6.475 CNY/CAD.

10. Under the absorption approach, which of the following is least likely required to move the balance of payments toward surplus?
   (A) Decreased domestic expenditure relative to income.
   (B) Increased savings relative to domestic investment.
   (C) Sufficient elasticities of export and import demand.

11. Akor is a country that has chosen to use a conventional fixed peg arrangement as the country's exchange rate regime. Under this arrangement, Akor's exchange rate against the currency to which it pegs:
   (A) may fluctuate around the peg rate.
   (B) will be equal to the peg rate.
   (C) is market-determined.

12. The spot exchange rate is 1.1132 GBP/EUR and the 1-year forward rate is quoted as +1349 points. The 1-year forward exchange rate for GBP/EUR is closest to:
   (A) 1.1267.
   (B) 1.2481.
   (C) 1.2634.

13. At a base period, the CPIs of the countries of Tuolumne (currency is the TOL) and Bodee (currency is the BDE) are both 100, and the exchange rate is 0.90 BDE/TOL. One year later, the exchange rate is 0.75 BDE/TOL, and the CPI has risen to 110 in Tuolumne and 105 in Bodee. The real exchange rate is closest to:
   (A) 0.79 BDE/TOL.
   (B) 0.72 BDE/TOL.
   (C) 0.83 BDE/TOL.

14. Which approach to analysis of trade deficits indicates that in the absence of excess capacity in the economy, currency devaluation provides only a temporary improvement in a country's trade deficit, and that long-term improvement requires either a smaller fiscal deficit or a larger excess of domestic savings over domestic investment?
   (A) Elasticities approach.
   (B) Absorption approach.
   (C) Real wealth approach.

15. The Marshall-Lerner condition suggests that a country's ability to narrow a trade deficit by devaluing its currency depends on:
   (A) capacity utilization in the domestic economy.
   (B) elasticity of demand for imports and exports.
   (C) national saving relative to domestic investment.

16. The tendency for currency depreciation to increase a country's trade deficit in the short run is known as the:
   (A) absorption effect.
   (B) J-curve effect.
   (C) Marshall-Lerner effect. Explanation

17. Currency depreciation is most likely to affect the balance of trade when a country's imports are goods that:
   (A) have close substitutes.
   (B) have relatively inelastic demand.
   (C) represent a small proportion of consumer spending.

18. Spot and one-month forward exchange rates are as follows:

	Spot	1-month forward
EUR/DEF	2.5675	2.5925
EUR/GHI	4.3250	4.2800
EUR/JKL	7.0625	7.0075

Based on these exchange rates, the EUR is closest to a 1-month forward:

(A) discount of 1% to the JKL.

(B) premium of 1% to the DEF.

(C) premium of 1% to the GHI.

19. If the no-arbitrage forward exchange rate for a euro in Japanese yen is less than the spot rate, then the interest rate in:

(A) Japan is less than in the eurozone.

(B) the eurozone is less than in Japan.

(C) Japan is the same as in the eurozone.

20. The spot exchange rate is 0.6243 USD/GBP and the 1-year forward rate is quoted as 3.016%. The 1-year forward exchange rate for USD/GBP is closest to:

(A) 0.6054.

(B) 0.6431.

(C) 0.6544.

21. Participants in foreign exchange markets that can be characterized as "real money accounts" most likely include:

(A) central banks.

(B) hedge funds.

(C) insurance companies.

22. The exchange rate for Japanese yen (JPY) per euro (EUR) changes from 98.00 to 103.00 JPY/EUR. How has the value of the EUR changed relative to the JPY in percentage terms?

(A) Appreciated by 4.9%.

(B) Appreciated by 5.1 %.

(C) Depreciated by 4.9%.

23. Assuming no changes in the prices of a representative consumption basket in two currency areas over the measurement period, changes in the nominal exchange rate:

(A) are equal to changes in the real exchange rate.

(B) can be converted to the real exchange rate using interest rates.

(C) can be extrapolated to calculate interest rates.

24. With respect to exchange rate regimes, crawling bands are most likely used in a transition toward:

(A) a fixed peg arrangement.

(B) a monetary union.

(C) floating exchange rates.

25. The three-month interest rate in the currency MNO is 4% and the three-month interest rate for the currency PQR is 5%. Based only on this information, the three-month forward MNO/PQR exchange rate:
   (A) is less than spot MNO/PQR.
   (B) may be greater than or less than spot MNO/PQR.
   (C) is greater than spot MNO/PQR.

26. Given the following quotes, GBP/USD 2.0000 and MXN/USD 8.0000, calculate the direct MXN/GBP spot cross exchange rate.
   (A) 0.6250.
   (B) 4.0000.
   (C) 0.2500.

27. A country's central bank announces a monetary policy goal of a stable exchange rate with the euro, which it defines as deviations of no more than 3% from its current exchange rate of 2.5000. The country's exchange rate regime is best described as a:
   (A) crawling band.
   (B) fixed peg.
   (C) target zone.

28. The spot CHF/EUR exchange rate is 1.2025. If the 90-day forward quotation is + 0.25%, the 90-day forward rate is closest to:
   (A) 1.2000.
   (B) 1.2050.
   (C) 1.2055.

29. In the currency market, traders quote the:
   (A) base currency rate.
   (B) nominal exchange rate.
   (C) real exchange rate.

30. The spot exchange rate for United States dollars per United Kingdom pound (USD/GBP) is 1.5775. If 30-day interest rates are 1.5% in the United States and 2.5% in the United Kingdom, and interest rate parity holds, the 30-day forward USD/GBP exchange rate should be:
   (A) 1.5621.
   (B) 1.5762.
   (C) 1.5788.

31. The exchange rate for Chinese yuan (CNY) per euro (EUR) changed from CNY/EUR 8.1588 to CNY/EUR 8.3378 over a 3-month period. It is most accurate to state that the:
    (A) CNY has depreciated 2.19% relative to the EUR.
    (B) EUR has appreciated 2.15% relative to the CNY.
    (C) EUR has appreciated 2.19% relative to the CNY.

32. The exchange rate for Australian dollars per British pound (AUD/GBP) was 1.4800 five years ago and is 1.6300 today. The percent change in the Australian dollar relative to the British pound is closest to:
    (A) appreciation of 10.1 %.
    (B) depreciation of 10.1 %.
    (C) depreciation of 9.2%.

33. The exchange rate of the Athelstan riyal (ATH) with the British pound is 9.00 ATH/GBP. The exchange rate of the Mordred ducat (MOR) with the U.S. dollar is 2.00 MOR/USD. If the USD/GBP exchange rate is 1.50, the ATH/MOR cross rate is closest to:
    (A) 12.00 ATH/MOR.
    (B) 3.00 ATH/MOR.
    (C) 6.75 ATH/MOR.

34. If the spot exchange rate between the British pound and the U.S. dollar is GBP/USD 0.7775, and the spot exchange rate between the Canadian dollar and the British pound is CAD/GBP 1.8325, what is the USD/CAD spot cross exchange rate?
    (A) 0.70186.
    (B) 1.42477.
    (C) 0.42428.

35. Other things equal, a real exchange rate (stated as units of domestic currency per unit of foreign currency) will decrease as a result of an increase in the:
    (A) domestic price level.
    (B) foreign price level.
    (C) nominal exchange rate (domestic/foreign).

36. The Japanese yen is trading at JPY/USD 115.2200 and the Danish krone (DKK) is trading at JPY/DKK 16.4989. The USD/DKK exchange rate is:
    (A) 6.9835.
    (B) 0.1432.
    (C) 0.5260.

37. Given an exchange rate of USD/CAD 0.9250 and USD/CHF 1.6250, what is the cross rate for CAD/CHF?
    (A) 0.5692.
    (B) 1.5032.
    (C) 1.7568.

38. The difference between Country D's nominal and real exchange rates with Country F is most closely related to:
    (A) Country D's inflation rate.
    (B) the ratio of the two countries' price levels.
    (C) the risk-free interest rates of the two countries.

39. If we compare the prices of goods in two countries through time, we can use the price information in concert with the quoted foreign exchange rate to calculate the:
    (A) interest rate spread.
    (B) nominal exchange rate.
    (C) real exchange rate.

40. The spot exchange rate for Canadian dollars (CAD) per Swiss franc (CHF) is 1.1350 CAD/CHF and the 12-month forward exchange rate is 1.1460 CAD/CHF. The forward quote is a:
    (A) discount of 110 points and the CAD is at a forward discount to the CHF.
    (B) premium of 11 points and the CAD is at a forward premium to the CHF.
    (C) premium of 110 points and the CAD is at a forward discount to the CHF.

41. In the context of the foreign exchange market, investment accounts are said to be leveraged if they:
    (A) borrow and sell foreign currencies.
    (B) buy currencies on margin.
    (C) use derivatives.

42. In the foreign exchange markets, transactions by households and small institutions for tourism, cross-border investment, or speculative trading comprise the:
    (A) real money market.
    (B) retail market.
    (C) sovereign wealth market.

43. When forward currency exchange-rate contracts are available, the difference between the spot and forward exchange rates for a pair of currencies is most likely to reflect the difference between the two countries':
    (A) economic growth rates.
    (B) risk-free interest rates.
    (C) annual inflation rates.

44. The sell side of the foreign exchange markets primarily consists of:
    (A) firms and investors that require foreign currencies for transactions.
    (B) firms and investors that are hedging their currency risks.
    (C) multinational banks that deal in currencies.

45. Country G and Country H have currencies that trade freely and have markets for forward currency contracts. If Country G has an interest rate greater than that of Country H, the no-arbitrage forward G/H exchange rate is:
    (A) equal to the G/H spot rate.
    (B) greater than the G/H spot rate.
    (C) less than the G/H spot rate.

46. In which of the following exchange rate regimes can a country participate without giving up its own currency?
    (A) Crawling peg or formal dollarization.
    (B) Monetary union or currency board.
    (C) Target zone or conventional fixed peg.

47. Which of the following would least likely be a participant in the forward market?
    (A) Arbitrageurs.
    (B) Long-term investors.
    (C) Traders.

48. Assume the exchange rate between the Trotter (TRT) and the Roeckl (RKL) is 5.50 TRT/RKL and the exchange rate between the Roeckl and the Passage (PSG) is 8.00 RKL/PSG. The cross rate between the PSG and the TRT is closest to:
    (A) 44.00 PSG/TRT.
    (B) 0.6875 PSG/TRT.
    (C) 0.0227 PSG/TRT.

49. If the AUD/CAD spot exchange rate is 0.9875 and 60-day forward points are -25, the 60-day AUD/CAD forward rate is closest to:
    (A) 0.9900.
    (B) 0.9850.
    (C) 1.0125.

50. The spot exchange rate for CHF/EUR is 0.8342 and the 1-year forward quotation is -0.353%. The 1-year forward exchange rate for EUR/CHF is closest to:
    (A) 1.2022.
    (B) 0.8313.
    (C) 1.2029.