

- \_\_\_\_\_1. If the Euro is selling at a premium relative to the USD in the forward market, is the forward price of USD /EUR larger or smaller than the spot price of the USD /EUR?
- a. **larger**
  - b. smaller
  - c. indeterminate
  - d. the same
- \_\_\_\_\_2. From the perspective of the MNC, the most important purpose of the forward markets is the process of \_\_\_\_\_.
- a. **hedging**
  - b. arbitraging
  - c. speculating
  - d. preventing default
- \_\_\_\_\_3. It is 1998. The spot and 30-day forward rates for the Dutch guilder are \$.3075 and \$.3120, respectively. The guilder is said to be selling at a forward
- a. annualized premium of 1.46%
  - b. **annualized premium of 17.56%**
  - c. annualized discount of 6.39%
  - d. annualized discount of 15.10%
- \_\_\_\_\_4. If you were asked to forecast the future spot rate of a currency, how much of the probability distribution of the rate is between plus or minus 2 standard deviations?
- a. 12.55%
  - b. 24.55%
  - c. 62.87%
  - d. **95.44%**

- \_\_\_\_\_5. The purchases of goods and assets by domestic residents from foreign residents are \_\_\_\_\_ because they cause a payment out of the country.
- a. Credit Transactions
  - b. Current Account Transactions
  - c. *Debit Transactions***
  - d. Capital Account Transactions
- \_\_\_\_\_6. In a freely-floating exchange rate system, the sale of Japanese cars to the United States will be offset by which item on the US balance of payments?
- a. a credit on the current account
  - b. a credit on the regular capital account
  - c. a debit on the current account
  - d. *a or b***
- \_\_\_\_\_7. If a U.S. investor buys a 2-year French note and pays by check, on the U.S. balance of payments there appears:
- a. a credit on the current account and debit on the capital account
  - b. a credit on the capital account and debit on the current account
  - c. *a debit and a credit on the capital account***
  - d. a debit and a credit on the current account
- \_\_\_\_\_8. The Japanese current account surplus can best be attributed to
- a. the high rate of Japanese domestic investment
  - b. Japanese protectionism
  - c. *the high rate of Japanese savings***
  - d. government budget deficits
- \_\_\_\_\_9. If a nation's income exceeds its spending, then \_\_\_\_\_.
- a. savings will exceed domestic investment
  - b. the nation must run a current-account surplus
  - c. the nation will increase its net foreign assets
  - d. *all of the above***