ECN 160B SSI **July 3rd, 2012**

Quiz 1

Multiple choice answers: (2 points each)
Please provide your answers to the multiple choice questions in the space provided below.

1) _____ 2) _____ 3) _____ 4) _____ 5) _____

1. What is a multilateral exchange rate?
   A) It is an exchange rate that is measured by using a number of different techniques.
   B) It is an exchange rate that calculates the overall movement of the rate against more than just one other currency.
   C) It is an exchange rate that is measured once every 10 years.
   D) It is a rate that is set by the IMF for many different nations.

2. If the Fisher effect holds (when a nation's nominal rate of interest equals the world interest rate plus the nation's own expected inflation rate), then keeping the ____ fixed would force nations to keep inflation stable.
   A) world real interest rate
   B) nominal interest rate
   C) exchange rate
   D) real interest rate

3. If UIP holds, the interest rate at home is 4%, and the exchange rate is expected to rise by 3%, then the foreign interest rate is:
   A) 1%.
   B) 3%.
   C) 7%.
   D) 12%.

4. Overshooting is when exchange rates:
   A) adjust more in the short run than they need to for long-run equilibrium.
   B) adjust less in the short run than they need to for long-run equilibrium.
   C) are unable to adjust because of fixed exchange rates.
   D) adjust at the same rate as prices.

5. If Japan, for instance, wished to keep its exchange rate with the dollar at ¥100 = $1 and does not want to use capital controls, what monetary policy options are available to lower unemployment in the short run?
   A) Japan has all the options available to it, because domestic monetary policy is conducted inside the nation and has no bearing on its international variables.
   B) Traders would realize that any monetary policy actions taken inside a nation would improve economic conditions without affecting international variables.
   C) Japan cannot use any monetary policy that would cause its short-run exchange rate to depreciate against the dollar.
   D) Japan's monetary action would restore confidence and help keep the yen stable.

Short Answer: (10 points)

Suppose that at time t the U.S. Federal Reserve decides to *decrease* the rate of money growth from **μ** to **(μ-Δμ)**. Employing the long run monetary model we have developed in class, where money demand depends on interest rates, forecast the effect of this monetary policy. For each variable you are asked to forecast provide a graph of demonstrating the effect of the policy, an equation justifying the graph and a brief description of the intuition (one or two complete sentences will do).

A) Forecast U.S. nominal interest rates	B) Forecast U.S. real money balances
C) Forecast U.S. price level	D) Forecast U.S. Exchange rate