

exchange.

d. an increase in the demand of foreign exchange and a decrease in the supply of foreign exchange.

Use the following information to answer Questions 13 and 14:

Suppose that one year nominal interest rate is 7.2% in Italy and 3.8% in Canada. The current exchange rate is CAD 1.44= EURO 1.

44. According to the interest rate parity condition, what is the expected exchange rate (Canadian dollars per Euro) in one year?

- a. 1.2975.
- b. 1.3248.
- c. 1.3556.
- d. 1.3943.

45. Suppose a change in expectations regarding future Canadian inflation cause the Canadian nominal interest rate to change. As a result, the forward exchange rate became CAD 1.40=EURO 1. If nothing else changes, what is the new Canadian one year nominal interest rate?

- a. 3.37%
- b. 3.69%
- c. 4.22%
- d. 4.80%

46. Large, well-established corporations have access to securities markets

- a. can be explained by the problem of moral hazard.
- b. can be explained by government regulations that prohibit small firms from acquiring funds securities markets.
- c. explained why newer and smaller corporations rely so heavily on the new issues market for financing
- d. explained why indirect finance is such an important source of external financing for business.

47. In order to protect against foreign exchange rate risk, firms can use

- a. the forward market for foreign exchange.
- b. the spot market for foreign exchange.
- c. interest rate arbitrage.
- d. purchasing power parity.

48. If the interest rates on all bonds fall from 6 to 5 percent over the course of the year, which bond would prefer to have been holding?

- a. A bond with twenty years to maturity.
- b. A bond with ten years to maturity.
- c. A bond with five years to maturity.
- d. A bond with one year to maturity.

49. In Keynes's framework, _____ in the money supply creates excess _____ money, causing interest rates to _____, everything else held constant.

- a. a decrease; supply of; fall.
- b. a decrease; demand for; rise.
- c. an decrease; demand for; fall
- d. an decrease; supply of; rise

50. The remedies for adverse selection include all of the following expect:

- a. private production and sale of information.
- b. government regulation.
- c. financial intermediation.
- d. free-riding.

51. If stock prices are expected to drop dramatically, then, other things equal, the demand for stocks will _____ and that of Treasury bills will _____.

- a. increase; increase
- b. increase; decrease
- c. decrease; increase
- d. decrease; decrease

52. Which of the following is FALSE?

- a. Labour is more mobile internationally than it was in 1900.
- b. Capital flows today are larger mainly because economies are larger.
- c. There are important qualitative differences between capital flows today and in the past.
- d. In 1900 most international financial transactions involved buying and selling bonds.

53. Any risk-averse individual would always

- a. take a 10% chance at \$100 rather a sure \$10.
- b. take a sure \$10 rather than a 10% chance at \$100.
- c. take a 50% chance at \$4 and a 50% chance at \$1 rather than a sure \$1.
- d. take a sure \$1 rather than a 50% chance at \$4 and a 50% chance at losing \$1.

54. Economic restructuring that takes place as a result of opening to trade with other countries

- a. contradicts the idea of gains from trade.
- b. causes some trading activity to be zero sum.
- c. improves the nation's allocation of resources.
- d. worsens the nation's allocation of resources.

55. The cross-price elasticity between a pair of complementary goods will be

- a. negative.
- b. zero.
- c. positive.

d. positive or zero depending upon the strength of the relationship.

56. The Trade to GDP ratio for a nation that had \$2,250 million in exports, \$1,650 million in imports and \$7,500 million in GDP would be

- a. 0.44.
- b. 0.48.
- c. 0.52.
- d. 0.56.

57. Which of the following statements is TRUE?

- a. The corporate bond market is the most liquid bond market.
- b. The difference in bond interest rates reflect differences in liquidity risk only.
- c. An illiquid asset is one that can be quickly and cheaply converted into cash.
- d. The demand for a bond declines when it becomes less liquid, increasing the interest rate between it and relatively more liquid bonds.

58. Suppose we expect the CPI to rise by 41 percent between 2015 and 2025, and the minimum wage an hour in 2015. What should the minimum wage be in 2025 so as to have the same purchasing p 2015?

- a. \$13.50
- b. \$13.82
- c. \$25.14
- d. \$14.88

59. A person's real wages are

- a. always equal to their nominal wages.
- b. what is really reported on their pay cheque after taxes have been taken out.
- c. the nominal wages divided by some index by some index of prices.
- d. the same thing as their discretionary income.

60. The deadweight loss due to a price floor is composed of

- a. producer and consumer surplus losses associated with units that used to traded on the market but are no longer exchanged.
- b. producer surplus losses associated with units that used to be traded on the market but are not exchange.
- c. consumer surplus losses associated with units that used to be traded on market but are not exchanged.
- d. none of above

61. Which of the following is TRUE for a coupon bond?

The price of a coupon bond and the yield to maturity are positively related.

The yield to maturity is greater than the coupon rate when the bond price is above the par value.

When the coupon bond is priced at its fact value, the yield to maturity equals the current

yield.

The yield is less than the coupon rate when the bond price is below the par value.

62. A wage increase creates a substitution effect which leads the worker to desire _____ leisure, and an income effect which leads the worker to desire _____ leisure.

- A more; less
- B less; more
- C less; less
- D more; more

63. Everything else held constant, when bonds become less widely traded, and as a consequence the market becomes less liquid, the demand curve for bonds shifts to the _____ and the interest rate _____.

- A right; rises
- B right; falls
- C left; falls
- D left; rises

64. Compared to a tariff, an import quota, which restricts imports to the same amount as the tariff, A _____ will leave the country as a whole:

- B worse off than a comparable tariff.
- C not bad off as a comparable tariff.
- D about the same as a comparable tariff.

Any of the above can be true.

65. When the yield curve is flat or downward-sloping, it suggests that the economy is more likely to enter:

- A expansion
- B precession.
- C boom time.
- D a period of increasing output.

66. Which of the following is a positive statement?

- A Smoking should be restricted on all airline flights.
- B Tie minimum wage should not be increased because this would increase unemployment.
- C A fundamental assumption of the economic theory consumer behaviour is that consumers always prefer having more of any good to having less of it.
- D All automobile passengers should be required to wear seatbelts in order to protect them against injury.

67. The Trade to GDP ratio for a nation that had \$6,350 million in exports, \$4,450 million in imports, and GDP of \$19,620 million would be:

- A 0.55.
- B 0.60.