Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 225 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. Because of the class that follows yours, I cannot give extra time.

1) (8 points each) For THREE of the following events, do the double entry bookkeeping for the USA and **BRIEFLY** explain each entry. Assume that you are <u>not</u> a US citizen.
A) I buy $1000 worth of shares of Shell. (Shell is a Dutch company.)
B) An Egyptian bank pays me $100 interest.
C) I spend $6000 on a holiday in the Galapagos Islands in Ecuador.
D) You pay your $400 for your textbooks.
E) Americans send $2000 worth of ski jackets to Sri Lankan tsunami victims. (This actually happened.)

2) (8 points each) Use your answers to Question #1 to answer TWO of these questions. **BRIEFLY** explain your answer and show all calculations. Only use the three parts you showed.
A) What is the value of the current account? Is that a deficit or surplus?
B) What is the value of the short-run capital account? Is that a deficit or a surplus?
C) What is the value of the goods and services account? Is that a deficit or a surplus?

3) (10 points) Answer EITHER Part A OR Part B.
A) What is the *net international investment position*? Why is it important for a country?
B) Explain why relative PPP should hold even when absolute PPP won't.

4) (10 points) Answer EITHER Part A OR Part B.
A) Give an example of three-way arbitrage.
B) Suppose you bought a call option on the US$ for $100 @ 1.2i /$. The option cost you 0.01i per $. If the price at the time of maturity of the option is 1.0i /$, what would you do? Why? What was the total cost of the $100. If the price at the time of maturity of the option is 1.4i /$, what would you do? Why? What was the total cost of the $100.

5) (14 points) Answer EITHER Part A OR Part B.
A) If the interest rate in the USA is 5% and 1.1% in Canada, the spot rate is US$0.7/C$ and the future rate is US$.728/C$. Would you expect money to flow to Canada, to the USA, or neither direction? How did you reach this conclusion?
B) You have a tuition bill due in January. How can you change your position on the US$ to a hedge position? Explain your logic.

6) Do ALL PARTS. Suppose that in Bangladesh, they make 5 dresses per hour and 2 shirts per hour. In Turkey, they make a 3 dresses per hour and make 1 shirt per hour. Assume both countries have 10 hours of labor.
A) (8 points) Determine which country has a comparative advantage in each good. Explain your logic briefly.
B) (16 points) Draw the PPF/CPF diagram for ONE of the countries. Explain how you derived each line.
C) (16 points) Draw the supply curve for ONE of the goods. Explain how you determined the curve.

7) (16 points) Answer EITHER Part A OR Part B.
A) If the money supply increases, then what will happen to the exchange rate over time? Why does the exchange rate take that pattern over time?
B) We said that F = f(i, i*, EA, RP, Y, P, W). For FOUR of these variables, determine if an increase in that variable will cause F to increase or decrease. BRIEFLY explain your logic.

8) (20 points) Illustrate ONE of the following events on the supply and demand for the Egyptian Pound (EGP). Use separate graphs for the two parts. Explain why the curve(s) moved as drawn and determine which currency will appreciate.
A) People decide it is too dangerous to see the pyramids because of Al Qaeeda.
B) The interest rates in Egypt increase.