

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (10 points) If the current exchange rate is US\$1.5/€ and then tomorrow it changes to €0.6/US\$, then did the US\$ appreciate, depreciate, revalue, or devalue? Show all work and explain your logic.

- 2) (20 points each) Illustrate the following events on the supply and demand for yen (¥). Explain why the curve(s) moved as drawn. Which currency appreciated? How can you tell?
 - A) The interest rates in the USA go up.
 - B) The prices in Japan go up.
 - C) The American GDP drops.

- 3) (10 points) Suppose the spot rate is US\$0.2/NK r and the three-month forward rate is US\$0.21/NK r , and the three-month interest rate on CDs in the USA is 10% APR and in Norway it is 6%. Would you expect an outflow or an inflow of capital? Show all calculations and explain your logic.

- 4A) (10 points) Suppose your money for tuition at Bethany is coming from your home country (not the USA.) Assuming you have no other assets or liabilities in US\$, do you have a long or short position in the US\$? How could you hedge it using futures? Explain your logic.
- 4B) (10 points) Suppose you wanted to reduce your risk using options. How could you reduce your risk in that manner? Prove that you reduced your risk regardless of which way the value of the US\$ goes.