

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be at a time to be determined in class, probably Monday 12/2.

For Chapters 13 - 16, you can find old test questions by looking at Exam #1 & #2 from ECON 365.

Chapter 14 starting on Page 376: What are **spot** and **forward exchange rates**? Be able to calculate the **forward discount** or **forward premium** and know what they mean. What are the following and how can you use them to reduce exchange rate risk? **Foreign exchange swaps, foreign exchange futures, and foreign exchange options**. What is meant by **hedging, long position, short position, and speculating**? What are **covered interest arbitrage** and **covered interest arbitrage parity**? Understand why the **diagram on Page 448** for **CIAP** has the band and why below the band is outflow and above it is inflow. Understand the second equation for **CIAM** (14-2) and why it holds. *Note that for the CIAM, the first term is how much more we get at home by having our bonds and we subtract the FP which is what we would gain from the exchange rate if we put the money abroad.* What is meant by **eurocurrency**? (Would a euro denominated account in the US be a euroero account?) What are **eurobonds**?

Chapter 15: What are **absolute PPP** and **relative PPP**? Because I changed R to be £/\$ the latter becomes

$$R_1 = \frac{P_1^* / P_0^*}{P_1 / P_0} R_0$$

Why should they hold? What are problems with them? What is the **monetary**

approach to the exchange rate? (That is using $MV=PY$.) Why

would it explain the exchange rate? What is the **asset market**

$$M = f(\bar{i}, \bar{i}^*, \bar{E}A^*, \bar{R}P^*, \bar{Y}, \bar{P}, \bar{W})$$

approach? (That is the equation to the right) and the similar

equations for **D & F** which are the demand for domestic and foreign bonds respectively. Be able to explain the economics behind the signs in the three equations like . Understand why panels b through d in **Figure 15.6** behave like that given panel a as given. Why did I turn the last panel up-side-down?

Chapter 16: Understand how the **balance of payments adjusts with flexible exchange rates**. *That is showing the BOP on the S/D for currency.* Know how to **derive the supply and demand for foreign exchange** from the supply and demand for imports and exports. *Note that the demand for imported goods will result in a demand of the other country's currency and a supply of the home currency.* How do exchange rate changes affect the domestic income and prices? Be able to tell if the **exchange rate will be stable or unstable** by looking at a **graph** and with the **Marshall-Lerner condition**. Understand the economics of why Marshall-Lerner condition holds. What is meant by the identification problem. What is the **J-curve** and how can the Marshall-Lerner condition be used to explain it? How do the economies adjust to improperly set exchange rates under the **gold standard**? Ignore the appendix; however, Section A16.3 may help you to understand part of the chapter better.

For Chapters 20 - 21, you can find old test questions on Exam #3 or the Final Exam from ECON 365. Because the last two times the course was offered, was a short spring semester, you will not find these topics there. Prior to that offering of the course, I revised the syllabus, so these chapters have not been taught in ECON 360. Chapter 21 was typically covered after the last exam, so was only on the final

Chapter 20: This chapter can be summed up in one question. What are the advantages and disadvantages of the different exchange rate regimes? Basically, knowing the advantages and disadvantages of **fixed exchange rate** regimes like **Bretton Woods**, and the advantages and disadvantages of **flexible exchange rates** will help you to understand all of the other regimes. These other regimes include: **currency board arrangements, dollarization, fixed exchange rate with a band, adjustable peg with or without a band, crawling peg with or without a band, and a managed float, a.k.a. dirty float.** Why might **speculation** be stabilizing or destabilizing? Do not worry about the specifics of the transition to the Euro; however, if I gave a restriction the countries must meet, like debt less than 60% of GDP, then you should be able to tell me why the countries must meet that.

Chapter 21 until wherever we get to: Understand what the **IMF**, **SDRs**, and **seigniorage** are. What are some of the problems facing developing countries with regard to the exchange rates, currency flows, and financial stability? Understand the basic problems of the different exchange rate regimes of the past. Understand what the **IMF** and **World Bank** do. Why have emerging economies had some financial crises?

Non-graded Assignment #10A to be reviewed with Homework #10.

1) (20 points) State the Marshall-Lerner Condition. Explain the intuitive reason why it makes sense.

The page https://en.wikipedia.org/wiki/List_of_countries_by_exchange_rate_regime says that it lists every country's exchange rate regime.

2) (15 points) Why would a country have its currency pegged to the US dollar?

3) (15 points) Why would a country have its currency be free floating?

4) (20 points) According to the aforementioned Wikipedia page, Togo has its pa'anga pegged within horizontal bands of a composite exchange rate anchor. What does that mean? Why would they do that?

5) (15 points) What is seigniorage? Why is that more important for countries like the USA than other countries?

6) (15 points) What are SDRs and how are they used?

Review Sheet for the Final

There is no final since all of you are taking *comps*.