

The last one!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type this assignment 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 you go to the article linked below, you will find a balance of trade accounts table a little ways down. In row III, they have a -63.5. How did they calculate that? Why do they say that is an increase in foreign exchange? <https://indianexpress.com/article/explained/india-exchange-rate-current-account-deficit-forex-balance-of-payment-7851688/>

2) (15 points) Draw the S/D diagram for the Japanese yen, ¥, with the British pound, £, as the other currency. Illustrate the effects of an increase in the interest rates in Japan. (They can't go down.) Explain why the curve(s) moved as drawn. Which currency appreciated? Explain your logic.

3) (15 points) Draw the S/D diagram for the US dollar, with the euro, €, as the other currency. Illustrate the effects of an increase in the GDP of the USA. Explain why the curve(s) moved as drawn. Which currency appreciated? Explain your logic.

4) (20 points) Draw the covered interest arbitrage parity diagram. Explain why the three lines are where they are and why the far left and far right have the respective flows of capital.

5) (10 points each) Answer each part in separate paragraphs. Suppose a foreign student knows that next August, he will owe Bethany \$5000. Explain how he can use the tool listed to reduce exchange rate risk. Explain how that reduces risk.

A) Foreign exchange future.

B) Foreign exchange option.

6) (15 points) According to the first link, the exchange rate between the US\$ and the Australian \$ is 1.32 AUD/USD. The exchange rate between the AUD and the British pound is .57GBP/AUD. What is the exchange rate between the USD and the GBP? Show all work and briefly explain what you did. If the exchange rate between the USD and the GBP was actually .78GBP/USD, then explain how arbitrage can be done to make money.

<https://www.xe.com/currencyconverter/convert/?Amount=1&From=USD&To=AUD>

<https://www.xe.com/currencyconverter/convert/?Amount=1&From=AUD&To=GBP>

7) (5 points) If the forward rate is USD.75/GBP and the spot rate is USD .80/GBP. What is the forward premium or discount? Show all work and state how you know if the USD or the GBP is at a premium or discount.