Macroeconomics, Masaryk University
Spring 2017

QUIZ 3

10.04.2017

PART I: Multiple Choice Questions [8 points]

1. If the real exchange rate is less than 1, then [**4 points]**

a. nominal exchange rate x U.S. price > foreign price. The dollars required to purchase a good in the U.S. would buy more than enough foreign currency to buy the same good overseas.

b. nominal exchange rate x U.S. price > foreign price. The dollars required to purchase a good in the U.S. would not buy enough foregoing currency to buy the same good overseas.

c. nominal exchange rate x U.S. price < foreign price. The dollars required to purchase a good in the U.S. would buy more than enough foreign currency to buy the same good overseas.

d. nominal exchange rate x U.S. price < foreign price. The dollars required to purchase a good in the U.S. would not buy enough foreign currency to buy the same good overseas.

2. If **purchasing-power parity holds** but then U.S. prices rise, which of the following move the exchange rate back towards purchasing-power parity?**[4 points]**

a. foreign prices rise or the U.S. nominal exchange rate rises

b. foreign prices rise or the U.S. nominal exchange rate falls

c. foreign prices fall or the U.S. nominal exchange rate rises

d. foreign prices fall or the U.S. nominal exchange rate falls

PART II: Miscellaneous [12 points]

1. **Define the Net Capital Outflow. How does the perceived risks of holding foreign assets influence Net Capital Outflow? [4 points]**

2. **An MP3 player in Singapore costs 200 Singaporean dollars. In the U.S. it costs 100 US dollars. What is the nominal exchange rate if purchasing-power parity holds [4 points]**

3. **A Starbucks Grande Latte costs $3.75 in the U.S. and 28 yuan in China. The nominal exchange rate is 6.75 yuan per dollar. The real exchange rate is [4 points]**