Reading 20: Currency Exchange Rates

Question #1 of 43

Question ID: 413952

An exchange rate at which two parties agree to trade a specific amount of one currency for another a year from today is called a:

A) real exchange rate.
B) spot exchange rate.
C) forward exchange rate.

Question #2 of 43

Question ID: 413958

The exchange rate for Chinese yuan (CNY) per euro (EUR) changed from CNY/EUR 8.1588 to CNY/EUR 8.3378 over a 3-month period. It is *most accurate* to state that the:

A) CNY has depreciated 2.19% relative to the EUR.
B) EUR has appreciated 2.19% relative to the CNY.
C) EUR has appreciated 2.15% relative to the CNY

Question #3 of 43

Question ID: 434260

Assuming no changes in the prices of a representative consumption basket in two currency areas over the measurement period, changes in the nominal exchange rate:

A) can be extrapolated to calculate interest rates.
B) are equal to changes in the real exchange rate.
C) can be converted to the real exchange rate using interest rates.

Question #4 of 43

Question ID: 413980

The USD/EUR spot exchange rate is 1.3500 and 6-month forward points are −75. The 6-month forward exchange rate is:

A) 1.3425, and the USD is at a forward discount.
B) 1.3575, and the USD is at a forward discount.
C) 1.3425, and the USD is at a forward premium.

Question #5 of 43

Question ID: 413986

With respect to exchange rate regimes, crawling bands are *most likely* used in a transition toward:

A) a fixed peg arrangement.

B) a monetary union.

C) floating exchange rates.

Question #6 of 43

Question ID: 413948

Other things equal, a real exchange rate (stated as units of domestic currency per unit of foreign currency) will decrease as a result of an increase in the:

A) nominal exchange rate (domestic/foreign).

B) domestic price level.

C) foreign price level.

Question #7 of 43

Question ID: 413984

The spot exchange rate for United States dollars per United Kingdom pound (USD/GBP) is 1.5775. If 30-day interest rates are 1.5% in the United States and 2.5% in the United Kingdom, and interest rate parity holds, the 30-day forward USD/GBP exchange rate should be:

A) 1.5788.

B) 1.5621.

C) 1.5762.

Question #8 of 43

Question ID: 413963

The exchange rate of the Athelstan riyal (ATH) with the British pound is 9.00 ATH/GBP. The exchange rate of the Mordred ducat (MOR) with the U.S. dollar is 2.00 MOR/USD. If the USD/GBP exchange rate is 1.50, the ATH/MOR cross rate is *closest to*:

A) 3.00 ATH/MOR.

B) 6.75 ATH/MOR.

C) 12.00 ATH/MOR.

Question #9 of 43

Question ID: 413982

Currency depreciation is *most likely* to affect the balance of trade when a country's imports are goods that:

A) have relatively inelastic demand.

B) have close substitutes.

C) represent a small proportion of consumer spending.

Question #10 of 43

Question ID: 413979

Spot and one-month forward exchange rates are as follows:

	Spot	*1-month forward*
EUR/DEF	2.5675	2.5925
EUR/GHI	4.3250	4.2800
EUR/JKL	7.0625	7.0075

Based on these exchange rates, the EUR is *closest* to a 1-month forward:

A) premium of 1% to the DEF.

B) premium of 1% to the GHI.

C) discount of 1% to the JKL.

Question #11 of 43

Question ID: 413971

The spot exchange rate is 0.6243 USD/GBP and the 1-year forward rate is quoted as 3.016%. The 1-year forward exchange rate for USD/GBP is *closest to*:

A) 0.6431.

B) 0.6544.

C) 0.6054.

Question #12 of 43

Question ID: 413949

If we compare the prices of goods in two countries through time, we can use the price information in concert with the quoted foreign exchange rate to calculate the:

A) real exchange rate.

B) interest rate spread.

C) nominal exchange rate.

Question #13 of 43

Question ID: 413962

If the exchange rate value of the CAD goes from USD 0.60 to USD 0.80, then the CAD:

A) depreciated and Canadians will find U.S. goods cheaper.

B) depreciated and Canadians will find U.S. goods more expensive.

C) appreciated and Canadians will find U.S. goods cheaper.

Question #14 of 43

Question ID: 413987

A country's central bank announces a monetary policy goal of a stable exchange rate with the euro, which it defines as deviations of no more than 3% from its current exchange rate of 2.5000. The country's exchange rate regime is *best* described as a:

A) target zone.

B) fixed peg.

C) crawling band.

Question #15 of 43

Question ID: 413954

Participants in foreign exchange markets that can be characterized as "real money accounts" *most likely* include:

A) hedge funds.

B) central banks.

C) insurance companies.

Question #16 of 43

Question ID: 413964

Given an exchange rate of USD/CAD 0.9250 and USD/CHF 1.6250, what is the cross rate for CAD/CHF?

A) 1.7568.

B) 0.5692.

C) 1.5032.

Question #17 of 43

Question ID: 413959

The exchange rate for Australian dollars per British pound (AUD/GBP) was 1.4800 five years ago and is 1.6300 today. The percent change in the Australian dollar relative to the British pound is *closest to*:

A) appreciation of 10.1%.

B) depreciation of 10.1%.

C) depreciation of 9.2%.

Question #18 of 43

Question ID: 413965

Given the following quotes, GBP/USD 2.0000 and MXN/USD 8.0000, calculate the direct MXN/GBP spot cross exchange rate.

A) 4.0000.

B) 0.2500.

C) 0.6250.

Question #19 of 43

Question ID: 413989

The Marshall-Lerner condition suggests that a country's ability to narrow a trade deficit by devaluing its currency depends on:

A) capacity utilization in the domestic economy.

B) elasticity of demand for imports and exports.

C) national saving relative to domestic investment.

Question #20 of 43

Question ID: 413968

If the spot exchange rate between the British pound and the U.S. dollar is GBP/USD 0.7775, and the spot exchange rate between the Canadian dollar and the British pound is CAD/GBP 1.8325, what is the USD/CAD spot cross exchange rate?

A) 0.70186.

B) 0.42428.

C) 1.42477.

Question #21 of 43

Question ID: 434262

A currency exchange rate that is set today for an exchange to be made 90 days in the future is *best* described as a:

A) forward exchange rate.

B) spot exchange rate.

C) real exchange rate.

Question #22 of 43

Question ID: 413966

An analyst observes that the exchange rate for Mexican pesos is MXN/USD 8.0000, and the exchange rate for Polish zlotys is PLN/USD 6.0000. The MXN/PLN exchange rate is closest to:

A) 0.7500.

B) 14.0000.

C) 1.3333.

Question #23 of 43

Question ID: 413960

The exchange rate for Japanese yen (JPY) per euro (EUR) changes from 98.00 to 103.00 JPY/EUR. How has the value of the EUR changed relative to the JPY in percentage terms?

A) Depreciated by 4.9%.

B) Appreciated by 5.1%.

C) Appreciated by 4.9%.

Question #24 of 43

Question ID: 413969

The Japanese yen is trading at JPY/USD 115.2200 and the Danish krone (DKK) is trading at JPY/DKK 16.4989. The USD/DKK exchange rate is:

A) 0.1432.

B) 0.5260.

C) 6.9835.

Question #25 of 43

Question ID: 413957

Which of the following would least likely be a participant in the forward market?

A) Traders.

B) Arbitrageurs.

C) Long-term investors.

Question #26 of 43

Question ID: 434265

Country G and Country H have currencies that trade freely and have markets for forward currency contracts. If Country G has an interest rate greater than that of Country H, the no-arbitrage forward G/H exchange rate is:

A) less than the G/H spot rate.

B) greater than the G/H spot rate.

C) equal to the G/H spot rate.

Question #27 of 43

Question ID: 498751

Under the absorption approach, which of the following is *least likely* required to move the balance of payments towards surplus?

A) Sufficient elasticities of export and import demand.

B) Increased savings relative to domestic investment.

C) Decreased domestic expenditure relative to income.

Question #28 of 43

Question ID: 434264

If the current spot exchange rate for quotes of JPY/GBP is greater than the no-arbitrage 3-month forward exchange rate, the 3-month GBP interest rate is:

A) greater than the 3-month JPY interest rate.

B) equal to the 3-month JPY interest rate.

C) less than the 3-month JPY interest rate.

Question #29 of 43

Question ID: 441026

The spot exchange rate for Canadian dollars (CAD) per Swiss franc (CHF) is 1.1350 CAD/CHF and the 12-month forward exchange rate is 1.1460 CAD/CHF. The forward quote is a:

A) discount of 110 points and the CAD is at a forward discount to the CHF.

B) premium of 110 points and the CAD is at a forward discount to the CHF.

C) premium of 11 points and the CAD is at a forward premium to the CHF.

Question #30 of 43

Question ID: 413967

If the CAD is trading at USD/CAD 0.6403 and the GBP is trading CAD/GBP 2.5207, the USD/GBP exchange rate is:

A) 3.9367.

B) 1.6140.

C) 0.6196.

Question #31 of 43

Question ID: 413974

The spot CHF/EUR exchange rate is 1.2025. If the 90-day forward quotation is +0.25%, the 90-day forward rate is *closest to*:

A) 1.2055.

B) 1.2050.

C) 1.2000.

Question #32 of 43

Question ID: 413955

The sell side of the foreign exchange markets primarily consists of:

A) retail investors.

B) multinational banks.

C) accounting firms.

Question #33 of 43

Question ID: 434267

The spot rate for Chinese yuan per Canadian dollar is 6.4440. If the Canadian interest rate is 2.50% and the Chinese interest rate is 3.00%, the 3-month no-arbitrage forward rate is *closest to:*

A) 6.475 CNY/CAD.

B) 6.436 CNY/CAD.

C) 6.452 CNY/CAD.

Question #34 of 43

Question ID: 413975

If the no-arbitrage forward exchange rate for a euro in Japanese yen is less than the spot rate, then the interest rate in:

A) Japan is less than in the eurozone.

B) Japan is the same as in the eurozone.

C) the eurozone is less than in Japan.

Question #35 of 43

Question ID: 413972

The spot exchange rate is 1.1132 GBP/EUR and the 1-year forward rate is quoted as +1349 points. The 1-year forward exchange rate for GBP/EUR is *closest to*:

A) 1.2634.

B) 1.1267.

C) 1.2481.

Question #36 of 43

Question ID: 413988

The tendency for currency depreciation to increase a country's trade deficit in the short run is known as the:

A) J-curve effect.

B) absorption effect.

C) Marshall-Lerner effect.

Question #37 of 43

Question ID: 413973

If the AUD/CAD spot exchange rate is 0.9875 and 60-day forward points are −25, the 60-day AUD/CAD forward rate is *closest to*:

A) 0.9870.

B) 0.9900.

C) 0.9850.

Question #38 of 43

Question ID: 413985

In which of the following exchange rate regimes can a country participate without giving up its own currency?

A) Crawling peg or formal dollarization.

B) Target zone or conventional fixed peg.

C) Monetary union or currency board.

Question #39 of 43

Question ID: 434266

The spot rate for Japanese yen per UK pound is 138.78. If the UK interest rate is 1.75% and the Japanese interest rate is 1.25%, the 6-month no-arbitrage forward rate is *closest to:*

A) 138.10 JPY/GBP.

B) 138.44 JPY/GBP.

C) 138.95 JPY/GBP.

Question #40 of 43

Question ID: 413970

The spot exchange rate for CHF/EUR is 0.8342 and the 1-year forward quotation is −0.353%. The 1-year forward exchange rate for EUR/CHF is *closest to*:

A) 0.8313.

B) 1.2029.

C) 1.2022.

Question #41 of 43

Question ID: 434263

In the foreign exchange markets, transactions by households and small institutions for tourism, cross-border investment, or speculative trading comprise the:

A) retail market.

B) sovereign wealth market.

C) real money market.

Question #42 of 43

Question ID: 413951

In the currency market, traders quote the:

A) base currency rate.

B) real exchange rate.

C) nominal exchange rate.

Question #43 of 43

Question ID: 434261

The difference between Country D's nominal and real exchange rates with Country F is *most* closely related to:

A) the ratio of the two countries' price levels.

B) the risk-free interest rates of the two countries.

C) Country D's inflation rate.