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	Total

I ___________________________________pledge
(print your name)

Show all work and explain answers fully

1.) Currently is the exchange rate between the German mark and French franc fixed? The first word of your answer should either be "yes" (it is fixed) or "no" (it is not fixed) and then explain your answer. 5pts

2.) Currently is the exchange rate between the German march and Japanese Yen fixed? The first word of your answer should be either "yes" (it is fixed) or "no" (it is not fixed) and then explain your answer. *5pts*

3. How could country A use SDRs to intervene in the exchange rate market? What should happen to the value of country A's currency? 10pts

4. What is an (outright) foreign exchange transaction? *5pts*

5. What does it mean to peg a currency to another currency? Why would a country do this? *10pts*

6. Suppose the current exchange rate is DM 1.4/$. Estimate the DM/$ exchange rate four years from now assuming that in the U.S. (Germany) are 6%. (4%) p.a. inflation rates stay constant each year 10pts.

7) How reliable is your estimate. Explain carefully? 10pts.

8) What does it mean to say that a currency is fully convertible? 5pts.

9.) Given the following exchange rates *10pts*

Yen 125/$
DM 2/$
DM .015/Yen

Is arbitrage possible? Start your answer with either “yes’ (it is possible) or “no” (it is not possible) and then show why your answer is correct.

If arbitrage is possible, show how it could be done?

10. Given the following information, where should you invest your money? 10pts

Spot rate	DM 2/$
3 month forward rate	DM 1.99/$
Interest rate in the U.S.	6% P.A.
Interest rate in Germany	5% P.A.

11. What is the International Fisher Effect? Explain in words and give an equation. 10pts.

12. What is interest rate parity? Explain in words and give an equation. 10pts.