UNIVERSITÄT OSNABRÜCK
FACHBEREICH WIRTSCHAFTSWISSENSCHAFTEN

Cover page
(Klausurdeckblatt)

Exam in subject (Prüfung im Fach)	International Finance
Examiner (Prüfer)	Prof. Frank Westermann, Ph.D.
Date (Datum)	12.07.2022

Participant
(Klausurteilnehmer/in)

Course of studies (Studiengang)	
Surname, given name (Name, Vorname)	
Matriculation number (Matrikel-Nr.)	

Gained points
Erreichte Punkte

* All tasks are to be processed *
(Es sind alle Aufgaben zu bearbeiten)

Points (Punkte)			
A1	**A2**	**A3**	**A4**

Grading
(Benotung)

Total score (Gesamtpunktzahl)	
Grade (Modulnote)	
Examiner signature (Prüferunterschrift)	

Chair of International Economic Policy
Prof. Frank Westermann, Ph.D.

Exam in "International Finance"

Summer semester 2022

Total points: 60 points

For all questions: Please label all graphics thoroughly and completely describe the notation of all formulas and variables!

Question 1: Mundell-Fleming Model (15 points)

a) Write down the Balance of Payments identity and discuss the role of the central bank that is managing the foreign exchange reserves. (4 points)

b) Draw a Mundell-Fleming diagram and label all lines and axis.
Include (i) an equilibrium and (ii) a disequilibrium situation. Indicate whether your disequilibrium is a balance of payments surplus or deficit. (6 points)

c) Discuss in detail the effects of expansionary monetary policy in case of flexible exchange rates. (5 points)

Question 2: Boom-Bust Cycles (15 points)

a) Name the break-even condition for international investors in the 1-sector model and discuss the role of contract enforceability. (5 points)

b) Discuss the effects of contract enforceability on the financial multiplier under safe and risky investment. From a welfare perspective, is it optimal to choose a safe option? (6 points)

c) Describe the pro-cyclical effect of the real exchange rate in the context of the 2-Sector model. (4 points)

Question 3: Portfolio-Balance Model (14 points)

a) Discuss the basic setup of the Portfolio-Balance model and name the budget constraint of the investor. (4 points)

b) Discuss one of the central underlying assumptions. (2 points)

c) Assume an active central bank. Explain the effect of a decreasing preference for domestic money on the exchange rate and the interest rate. What is the net effect? (8 points)

Question 4: Interest rate parity and exchange rate determination (16 points)

a) One key implication of the Monetary Model is interest rate parity. Explain what it means and how it can be tested empirically. (5 points)

b) The following two EViews-outputs display the results of an empirical test of the uncovered interest rate parity between Finland and the United States. Diff_E is the change of the exchange rate and Diff_I is the difference in the interest rate between the two countries. Interpret the result and discuss a possible reason why interest rate parity frequently cannot be proven by data. (8 points)

Dependent Variable: Diff_E
Method: Least Squares

Sample (adjusted): 2010M01 2018M04
Included observations: 100 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.001923	0.002792	0.688766	0.4926
Diff_I	-0.003636	0.003315	-1.096903	0.2754

R-squared	0.112129	Mean dependent var	0.001853
Adjusted R-squared	0.012048	S.D. dependent var	0.027944
S.E. of regression	0.027916	Akaike info criterion	-4.299465
Sum squared resid	0.076369	Schwarz criterion	-4.247362
Log likelihood	216.9733	Hannan-Quinn criter.	-4.278378
F-statistic	1.203196	Durbin-Watson stat	2.141808
Prob(F-statistic)	0.275372		

Wald Test:
Equation: Untitled

Test Statistic	Value	df	Probability
F-statistic	45844.93	(2, 98)	0.0000
Chi-square	91689.85	2	0.0000

Null Hypothesis: C(1)=0, C(2)=1

b) Explain briefly the connection between agents' expectations and the "overshooting" of the exchange rate. (3 points)

The Chair of International Economic Policy wishes you best success!

Please sign the exam on the last page before handing it in.