

**Test Syllabues: *International Business: Environments and Operations, 15e, Global Edition* (Daniels et al.)—For student use only. Do not redistribute or repost.**

**Chapter 9 Factors that Influence Exchange Rates**

**Multiple choice: Circle the letter of the one best answer according to the textbook:**

- 1) The primary objective of the International Monetary Fund is to \_\_\_\_\_.
  - A) encourage euro adoption
  - B) promote exchange rate stability
  - C) establish a unilateral system of payments
  - D) foster the power of the foreign-exchange market
- 2) The Bretton Woods Agreement established a system of fixed exchange rates under which each IMF member country set a \_\_\_\_\_.
  - A) quota
  - B) par value
  - C) gold standard
  - D) nominal interest rate
- 3) In order to join the IMF, a country must contribute a certain sum of money, called a \_\_\_\_\_.
  - A) special drawing right
  - B) trade balance
  - C) monetary reserve
  - D) quota
- 4) Which of the following best describes the special drawing right?
  - A) an international reserve asset created to supplement members' existing reserve assets
  - B) the official currency for international trade established by the World Bank
  - C) a substitute for the fixed value of gold as determined by currency rates
  - D) a contribution made by countries to join the IMF
- 5) The value of the SDR is currently based on the \_\_\_\_\_.
  - A) euro
  - B) U.S. dollar
  - C) weighted average of four currencies
  - D) weighted average of six currencies
- 6) What role has the IMF played in the Greek financial crisis of 2010-2011?
  - A) setting the value of the drachma
  - B) releasing funds for debt payments
  - C) demanding the sale of state-owned assets
  - D) lowering interest rates for international investors
- 7) Which of the following was NOT a result of the Smithsonian Agreement?
  - A) revaluation of currencies other than the dollar against gold
  - B) establishment of par values the quota system
  - C) devaluation of the dollar against gold
  - D) widening of exchange-rate flexibility
- 8) The primary result of the Jamaica Agreement was to \_\_\_\_\_.
  - A) allow greater exchange-rate flexibility
  - B) set austerity measures for debt control
  - C) establish a system based on par values
  - D) implement fixed exchange rates

- 9) \_\_\_\_\_ is a form of locking the value of a country's currency onto another currency.
- A) Managed floating
  - B) Monetization
  - C) Dollarization
  - D) Floating
- 10) Which type of exchange rate arrangement is based on supply and demand?
- A) soft peg
  - B) hard peg
  - C) crawling
  - D) floating
- 11) Which of the following countries has a soft peg currency?
- A) China
  - B) Brazil
  - C) Japan
  - D) India
- 12) Which of the following was part of the stability and growth pact that was required for countries to be part of the European Monetary Union?
- A) The annual government budget must be no greater than 3% of GDP.
  - B) The annual inflation rate must remain within 1.5% of the three best-performing EU countries.
  - C) The annual government budget deficit could be no greater than 60% of GDP.
  - D) The annual inflation rate must remain within 5.5% of the four best-performing EU countries.
- 13) Which EU country has NOT adopted the euro?
- A) Germany
  - B) France
  - C) Sweden
  - D) Greece
- 14) The major objective of the European Central Bank is to \_\_\_\_\_.
- A) set monetary policy for EU countries that adopt the euro
  - B) ensure that EU interest rates are equal to U.S. rates
  - C) control taxes as a means of monitoring EU debt
  - D) reduce spending by EU countries
- 15) Which of the following problems with the euro most likely worsened the financial crisis in Greece?
- A) excessive flexibility with interest rates
  - B) cultural disagreements on labor reform
  - C) lack of uniform fiscal regulation standards
  - D) unclear policies of the European Central Bank
- 16) Which of the following has the greatest amount of foreign-exchange reserves in the world?
- A) China
  - B) Japan
  - C) Russia
  - D) Taiwan
- 17) The global financial crises have pushed China closer to \_\_\_\_\_.
- A) operating independently from the central banks of other countries
  - B) discontinuing its relationship with the Bank for International Settlements
  - C) liberalizing its currency
  - D) controlling its currency

18) Why is China most likely considering a greater reliance on the SDR?

- A) gains in the foreign-exchange market
- B) concerns about the value of the U.S. dollar
- C) demands to replace the dollar with the euro for reserves
- D) requirements by the IMF to make China's currency more flexible

19) Which of the following links together the central banks of the world and acts as a central banker's bank?

- A) the IMF
- B) the World Bank
- C) the BIS
- D) the EMU

Answer: C

20) If inflation in the United States is relatively higher than inflation in Japan, and the Japanese government wants to keep the exchange rate fixed between the yen and the dollar, it should most likely \_\_\_\_\_.

- A) allow its currency to rise against the dollar
- B) allow its currency to fall against the dollar
- C) increase the supply of yen in the market
- D) decrease the supply of yen in the market

21) Given the daily volume of foreign-exchange transactions, it is most accurate to say which of the following?

- A) It is impossible for a government's interventions in the foreign-exchange market to affect market psychology.
- B) A government's intervention in the foreign-exchange market can reverse a currency's slide for the long term.
- C) A government's intervention cannot force the foreign-exchange market to move in a determined direction.
- D) A government should focus more on intervening in foreign-exchange markets than on correcting economic fundamentals.

22) A country's central bank is responsible for \_\_\_\_\_.

- A) distributing money to foreign countries that are in a debt crisis
- B) encouraging disorderly conditions in foreign-exchange markets
- C) the policies affecting the value of its country's currency
- D) establishing foreign-exchange markets

23) The central bank in the United States is the \_\_\_\_\_.

- A) Federal Reserve System
- B) U.S. Exchange Reserve
- C) Board of Governors
- D) U.S. Treasury

24) The \_\_\_\_\_ is the currency most widely used as a reserve asset.

- A) euro
- B) Japanese yen
- C) U.S. dollar
- D) British pound

- 25) The US Federal Reserve System wants to counter downward pressure on the dollar, so it will most likely \_\_\_\_\_.
- A) sell dollars for foreign currency
  - B) sell dollars and buy foreign stocks
  - C) buy Treasury bills with dollars
  - D) buy dollars with foreign currency
- 26) A black market exists when \_\_\_\_\_.
- A) a country closely monitors and adjusts the foreign-exchange rate
  - B) people pay more for hard currency than the official rate
  - C) a country is running a budget surplus
  - D) a country is experiencing a recession
- 27) Hard currencies are usually \_\_\_\_\_.
- A) not fully convertible
  - B) undesirable assets
  - C) highly liquid
  - D) unstable
- 28) Fully convertible currencies are also called \_\_\_\_\_.
- A) external currencies
  - B) hard currencies
  - C) unlimited currencies
  - D) soft currencies
- 29) Governments use a multiple exchange rate system to \_\_\_\_\_.
- A) increase their budget surplus
  - B) reduce exports
  - C) control foreign-exchange convertibility
  - D) limit deposit requirements
- 30) Country X has a floating rate for luxury goods and a lower rate for semi-manufactured goods. Which of the following is most likely used by Country X?
- A) import deposit requirements
  - B) multiple exchange rates
  - C) import licensing
  - D) quantity controls
- 31) Thomas is planning a vacation to Country X. On a tourism Web site, he reads that the government of Country X limits the amount of money a tourist may convert into the country's currency. Country X most likely uses which of the following?
- A) import deposit requirements
  - B) multiple exchange rates
  - C) import licensing
  - D) quantity controls
- 32) The purchasing power parity theory claims that a change in relative \_\_\_\_\_ between two countries must cause a change in \_\_\_\_\_ in order to keep the prices of goods in two countries fairly similar.
- A) exchange rates; inflation
  - B) inflation; exchange rates
  - C) interest rates; inflation
  - D) interest rates; exchange rates

- 33) The \_\_\_\_\_ theory seeks to define the relationship between currencies based on relative inflation.
- A) inflation growth rate
  - B) revaluation
  - C) purchasing power parity
  - D) interest rate
- 34) According to purchasing power parity theory, if Brazilian inflation was 6 percent and inflation in Argentina was 12 percent, the Brazilian real would be expected to \_\_\_\_\_.
- A) rise by the difference in inflation rates
  - B) fall by the difference in inflation rates
  - C) rise by 4.5 percent
  - D) stay the same
- 35) Which of the following is used as an illustration of the PPP theory for estimating exchange rates?
- A) the Composition of Official Foreign Exchange Reserves (COFER)
  - B) the black market rate
  - C) the import licensing ratio
  - D) the Big Mac Index
- 36) Which of the following statements best describes a limitation of the Big Mac Index?
- A) Profit margins vary by the strength of competition, which affect relative prices.
  - B) The theory of PPP incorrectly assumes that there are barriers to trade.
  - C) The Big Mac represents all possible commodities and services.
  - D) Taxes have no effect on Big Mac prices.
- 37) According to purchasing power parity, if the domestic inflation rate is \_\_\_\_\_ than that in the foreign country, the domestic currency should be \_\_\_\_\_ than that of the foreign country.
- A) lower; weaker
  - B) higher; higher
  - C) lower; stronger
  - D) higher; stronger
- 38) If a Big Mac costs \$3.41 in the United States and \$2.67 in Argentina (the price of a Big Mac in Argentine pesos converted into dollars at the spot exchange rate), which of the following is most likely true?
- A) The peso is overvalued against the dollar.
  - B) The dollar is overvalued against the peso.
  - C) It should be harder for a U.S. tourist to buy a leather coat in Buenos Aires because the dollar won't go very far.
  - D) It will be cheap for Argentine companies to invest in the United States because the dollar is relatively weak.
- 39) Which of the following states that the country with the higher interest rate should have the higher inflation?
- A) the Fisher Effect
  - B) the International Fisher Effect
  - C) the Interest Rate Inflation Theory
  - D) the Forward rate theory

- 40) The International Fisher Effect \_\_\_\_\_.
- A) links interest rates and inflation
  - B) implies that the currency of the country with the lower interest rate will weaken in the future
  - C) implies that the country with the higher interest rate should have lower inflation
  - D) links interest rates and exchange rates
- 41) The International Fisher Effect implies that \_\_\_\_\_.
- A) the country with the higher interest rate should have lower inflation
  - B) the currency of the country with the lower interest rate will strengthen in the future
  - C) the currency of the country with the higher interest rate will strengthen in the future
  - D) interest rates and inflation are not linked at all
- 42) If the real interest rate is 5%, the rate of inflation in the United States is 6%, and the rate of inflation in the United Kingdom is 3%, which of the following statements would NOT be true?
- A) The nominal rate of interest in the U.S. would be greater than the nominal interest rate in the U.K.
  - B) The difference between the U.K. and U.S. interest rates is a function of the difference between their inflation rates.
  - C) The nominal rate of interest in the United States and the United Kingdom would be the same because of purchasing power parity.
  - D) Investors would get a higher return on their money in the United States.
- 43) Ted, a manager at Global Manufacturing, is analyzing trends in economic variables to predict future exchange rates that might affect the MNE's international operations. Which of the following is Ted most likely doing?
- A) fundamental forecasting
  - B) technical forecasting
  - C) resource forecasting
  - D) economic forecasting
- 44) Sarah, a manager at Farley Enterprises, an MNE with operations in Asia, Europe, and North America, is using past trends in exchange rate movements to spot future trends. Which type of forecasting approach is Sarah most likely using?
- A) fundamental
  - B) technical
  - C) application
  - D) economic
- 45) A technical forecaster is also known as a \_\_\_\_\_.
- A) CFO
  - B) de facto economist
  - C) chartist
  - D) monetary administrator
- 46) Research has shown that past exchange rates are an accurate predictor of future exchange rates \_\_\_\_\_.
- A) only in the long run
  - B) only in the very short run
  - C) only during times of economic crisis
  - D) only during times of economic calm

- 47) Forecasters must predict the magnitude, direction, and \_\_\_\_\_ of an exchange rate change or movement.
- A) length
  - B) timing
  - C) altitude
  - D) depth
- 48) It is easier to predict the \_\_\_\_\_ of a change than the \_\_\_\_\_ of a change in exchange rates.
- A) altitude; magnitude
  - B) depth; length
  - C) timing; depth
  - D) direction; magnitude
- 49) In a country with a currency that is not freely floating, the timing of an exchange rate change is often a \_\_\_\_\_ decision.
- A) cultural
  - B) consensus
  - C) political
  - D) market
- 50) Many economists have predicted that Hong Kong will change its currency system to the \_\_\_\_\_.
- A) U.S. dollar
  - B) euro
  - C) yuan
  - D) won
- 51) Shelly, a manager at a global firm, is studying the foreign currency intervention practices of Indonesia. Shelly is most likely examining \_\_\_\_\_ factors.
- A) institutional setting
  - B) fundamental analysis
  - C) confidence
  - D) circumstantial
- 52) Craig, a manager at a global firm, is studying the cyclical nature of growth and employment as a part of the process to forecast exchange rates. Which factor is Craig most likely monitoring?
- A) the institutional setting
  - B) fundamental analyses
  - C) cultural analyses
  - D) circumstances
- 54) Tanya is a manager at a global firm that has operations located in Brazil, India, and Japan. Tanya is in the process of making a fundamental analysis in order to forecast exchange rates in each country. Which of the following is a confidence factor that Tanya should consider in trying to predict exchange rate movements in each country?
- A) What are the expectations of the market with respect to the political environment?
  - B) Have there been significant national events that have appeared in the news lately?
  - C) At what rates do there appear to be buy and sell orders?
  - D) What trends do the charts show?

- 55) Ray, a marketer at a global firm, monitors the exchange rate of countries in which the firm sells its products. Ray is most likely concerned about changes in \_\_\_\_\_.
- A) operating expenses
  - B) exporting policies
  - C) product demand
  - D) quality control
- 56) Which of the following accurately explains how producers are affected by exchange rate changes?
- A) To save money, a manufacturer may decide to relocate production to a country with a stronger currency.
  - B) A manufacturing firm relocating to a country with a weak currency can make a cheap initial investment.
  - C) Goods manufactured in a country with a weak currency may be relatively expensive in world markets.
  - D) A manufacturer with high operating expenses would likely relocate production to a country with a currency that is gaining value.
- 57) If the euro continues to remain strong against the U.S. dollar, which of the following strategies would make the most sense for BMW?
- A) It might be advantageous for them to consider exporting from Germany to the U.S. to take advantage of cheaper costs.
  - B) It might increase its manufacturing capacity in the United States to take advantage of the cheaper dollar.
  - C) It might consider raising prices in the United States to earn more profits for BMW.
  - D) It really doesn't make any difference to BMW since consumers will buy the cars no matter what they cost.
- 58) *Endaka*, the "high yen," caused financial problems for \_\_\_\_\_.
- A) Japanese foreign-exchange reserves
  - B) American foreign-exchange reserves
  - C) Japanese importers
  - D) Japanese exporters
- 59) Which of the following most accurately describes the economic situation in El Salvador?
- A) It is facing significant competition from neighboring countries that are not tied to the dollar.
  - B) It relies exclusively on the United States as a market for its products.
  - C) It now has the same exchange rate as other members of CACM.
  - D) It is putting more resources into industries that have a history of earning profits.
- 60) According to the text, which currency is expected to experience the most change in the upcoming years?
- A) yen
  - B) yuan
  - C) euro
  - D) U.S. dollar
- 61) In the Russian Federation, monetary policy is determined by \_\_\_\_\_.
- A) The office of the President of the Russian Federation
  - B) The Duma
  - C) The Council of Ministers
  - D) The Central Bank of the Russian Federation



**SHORT ANSWER ITEMS:**

62) What is the International Monetary Fund (IMF)? What are its objectives? What occurs when a country joins the IMF today?

63) What is a Special Drawing Right (SDR)? How is it used?

64) Describe the exchange rate arrangements used in the EU, Hong Kong, China, and the U.S.

65) In a short essay, compare the roles of the Federal Reserve Bank of New York and the European Central Bank.

66) What is a black market? Under what conditions might one exist?

67) In a short essay, discuss purchasing power parity and the short-run problems that affect PPP.

68) What methods are used by managers to forecast exchange rates? What are the main factors that influence exchange rates?

69) How do exchange rate changes affect a company's marketing, production, and financial decisions? What predictors should a manager monitor to forecast exchange rate changes?

70) What led to the Greek financial crisis of 2010? What have been the roles of the IMF and European Central Bank in the crisis? What challenges with the euro facilitated the crisis?

71) What are the main arguments for and against Africa developing a common currency like the EU?