MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) If a factor increases the demand for _____ goods relative to _____ goods, the domestic currency will appreciate.
   A) domestic, foreign  B) domestic, domestic
   C) foreign, domestic  D) foreign, foreign

2) Which of the following types of information most likely allows the exploitation of a profit opportunity?
   A) Technical analysis
   B) Hot tips from a stockbroker
   C) Financial analysts' published recommendations
   D) None of the above

3) According to the law of one price, if the price of Saudi crude oil is 100 riyals per barrel and the price of Mexican crude oil is 200 pesos per barrel, then the exchange rate between the Saudi riyals and Mexican pesos is:
   A) 2 riyals per peso.
   B) 0.5 riyal per peso.
   C) 0.5 peso per riyal.
   D) 2 pesos per riyal.
   E) both (B) and (D) above
4) (5 points) **Bonus Question:** Which of the following statements can not be ascribed to the news article "Ring in the New"?
   A) Initially, some of the countries were affected by a shortage of new coins as many shopkeepers did not keep its adequate stock.
   B) There are also plenty of folk who suspect that retailers will take advantage of their unfamiliarity with the euro to sneak prices up.
   C) A common currency will not only reduce the transactions costs of intra-regional trade, but will also solve the unemployment problem faced by many of the euro area countries.
   D) Big companies have long been publishing their accounts and trading in euros and share prices have been quoted in euros for the past three years.

5) Which of the following statements are true?
   A) The demand for a bond declines when it becomes less liquid, increasing the interest rate spread between it and relatively more liquid bonds.
   B) A liquid asset is one that can be quickly and cheaply converted into cash.
   C) The differences in bond interest rates reflect differences in both default risk and liquidity.
   D) All of the above are true statements.
   E) Only (a) and (b) are true statements.

6) Important implications of efficient markets theory include:
   A) sometimes a stock price declines when good news is announced.
   B) future changes in stock prices should, for all practical purposes, be unpredictable.
   C) stock prices will respond to announcements only when the information in these announcements is new.
   D) all of the above.
   E) only (a) and (b) of the above.
7) According to the interest parity condition, if the domestic interest rate is
A) below the foreign interest rate, then there is a positive expected
appreciation of the foreign currency.
B) below the foreign interest rate, then the interest parity condition is
violated.
C) above the foreign interest rate, then there is a positive expected
appreciation of the foreign currency.
D) above the foreign interest rate, then there is a negative expected
appreciation of the foreign currency.

8) Holding everything else equal, an increase in the money supply causes
A) interest rates to increase initially.
B) bond prices to decline initially.
C) interest rates to decline initially.
D) both (a) and (c) of the above.
E) both (b) and (c) of the above.

9) When stock prices become _____ volatile, the demand curve for bonds shifts
to the _____ and the interest rate _____.
A) more; left; falls
B) less; left; falls
C) more; right; rises
D) less; left; rises
E) more; right; falls

10) People have a strong incentive to form rational expectations because
A) they are guaranteed of success in the stock market.
B) it is costly to do so.
C) it is costly not to do so.
D) none of the above are true.

11) During a business cycle expansion, the supply of bonds shifts to the _____
as businesses perceive more profitable investment opportunities, while the
demand for bonds shifts to the _____ as a result of the increase in wealth
generated by the economic expansion.
A) right, left 	 B) right, right 	 C) left, right 	 D) left, left
12) When yield curves are steeply upward sloping,
   A) short-term interest rates are about the same as long-term interest rates.
   B) medium-term interest rates are above both short-term and long-term interest rates.
   C) short-term interest rates are above long-term interest rates.
   D) long-term interest rates are above short-term interest rates.
   E) medium-term interest rates are below both short-term and long-term interest rates.

13) When the Euro was introduced, it was valued at $1.15 and currently it trades around 87 cents. Thus, since its introduction, the dollar has _____ and the euro has _____.
   A) depreciated; depreciated    B) appreciated; appreciated
   C) appreciated; depreciated    D) depreciated; appreciated

14) The theory of asset demand suggests that the most important factor affecting the demand for domestic and foreign deposits is the
   A) expected return on these assets relative to one another.
   B) preference for domestic goods relative to foreign goods.
   C) productivity of the domestic country relative to the foreign country.
   D) price level of the domestic country relative to the foreign country.

15) The theory of efficient capital markets suggests that allocating your funds in the financial markets on the advice of a financial analyst
   A) will certainly mean higher returns than if you had made selections by throwing darts at the financial page.
   B) will always mean lower returns than if you had made selections by throwing darts at the financial page.
   C) is good for the economy.
   D) is not likely to prove superior to a strategy of making selections by throwing darts at the financial page.

16) A higher domestic money supply causes the domestic currency to
   A) appreciate more in the short run than in the long run.
   B) depreciate more in the short run than in the long run.
   C) appreciate more in the long run than in the short run.
   D) depreciate more in the long run than in the short run.
17) In Figure 1, one factor that would not have caused the demand for bonds to increase (shift to the right) is
A) a reduction in the riskiness of bonds relative to other assets.
B) a decrease in the expected return on bonds relative to other assets.
C) an increase in the expected return on bonds relative to other assets.
D) an increase in wealth.

18) In Figure 2, the factor responsible for the decline in the interest rate is
A) a decline in income.
B) a decline the price level.
C) an increase in the money supply.
D) a decline in the expected inflation rate.
19) The U-shaped yield curve in Figure 3 indicates that _____ interest rates are expected to _____
   A) short-term; rise in the near-term and fall later on.
   B) short-term; fall moderately in the near-term and rise later on.
   C) short-term; fall sharply in the near-term and rise later on.
   D) short-term; remain unchanged in the near-term and rise later on.