Write short answers for each questions from the notes

Finance

ASSIGN BUSTER

Short answers Q1. The Balance of Payments (BOP) offers detailed information on the demand and supply of a s currency. BOP also determines the potentiality of a business in relation to other businesses in the globe, as well as evaluates the performance of company in international competition (Lecture notes 5). The current account entails exports and imports of goods and services while the capital account entails all the purchases made and sales of stocks, bonds amongst other assets (Lecture notes 5). The trade balance is responsive to the changes in exchange rates as in the course of currency depreciation against the currencies of other trading partners, the exports are expected to go up while imports are likely to depreciate (Lecture notes 7). Q2. The gold standard regulates the trade debits and surpluses through determining the convertibility of currency into gold (Lecture notes 1). So as to ensure a deficit occurs, it is required that the bank notes are backed by minimum ratio gold reserve. The next process should be creating a chance for an increase and a drop of the gold flows in the country (Lecture notes 1). Q3. The current rewards to member states of the European Union involve them enjoying a less than 3% GDP of the government's budget deficits, high price stability rates and low gross public debts (Lecture notes 2-3). The major disadvantage is that the countries have to surrender their economic sovereignty to the union. To have a successful fiscal and monetary union, the conditions involved the government keeping their deficits below 3% of the GDP, having price stabilities, maintain their currencies within specific ranges, and having their public debts below 6%. (Lecture notes 2-3). Q4. Currency depreciation is bad as the exchange rate regime for the same will be fixed; thus, its currency supply in the market will be minimal. The

deficits are also likely to increase. Its level of International Reserves will also be decreased to a high extent (Lecture notes 37, 9). Q5. The exchange rate would favor German car exports and frustrate U. S. car exports as after the 2nd World War, the US established a fixed rate that saw its dollar convertible to gold at $ 35 for 1ounce (Lecture notes 2). Since its city had to maintain its currency at a plus or minus 1% of its value while buying or selling, the disequilibrium created a change in the par value and this would be the case for the German cars. For the case of the US cars, the move was to be bound by numerous losses as the country suffered huge amounts of deficits in the accounts; thus, not sustain the business. The need for the car reserves would be cut immensely as after the 2nd World War, the gold exchange system began to collapse a great deal. In this case, it is worth concluding that the German business would be better placed as opposed to the sale of U. S cars (Lecture notes 2). Q6. Fixed rates involve the government designing policies that may deal with deficits and balance of payments in an attempt to outdo its national policy autonomy (Lecture notes 4). Floating rates on the other hand are rates that can allow for easy external regulations as well as allow for the national policy to function in the economy. In the case of volatility, floating rates are allowed to intervene as opposed to the fixed rates (Lecture notes 2). Managed rates are an amalgamation of the fixed and floating rates. The managed rates are however short term and only work to seek interventions that are urgent. These rates can also be revised depending on the amounts of surplus or deficits experienced. They are simply rates that call frequent interventions (Lecture notes 37-38). The floating rates are rapidly affected by inflation as they call for higher interest rates; thus,

borrowing on the same increases considerably (Lecture notes 33). Q7. Interest rate parity relates to the condition that is intact when the international markets are in a state of equilibrium. When there is an equal interest differential to the forward premiums or discounts between two countries, interest parity ensues (Lecture notes 11). The process instigate by arbitrageurs when the Interest rate parity is violated involves ensuring that there is an interest differential between two states that creates an equal interest to premium discounts on the concerned currencies; thus, restore equilibrium (Lecture notes 11). Q8. Forward markets are markets that are used by investors to earn interests of a different currency after investments (Lecture notes 11). A Central Bank intervention is an involvement of the moves by the Central Bank to deal with the non-equilibrium rates (Lecture notes 39). Cross Exchange Rates are rates that determine cross border ventures and trade. Forward Premiums are premiums for investment from pre-determined currencies. Work CitedLecture notes. International Finance – L1. 2014. [Word. doc].