Exchange rate assignment

Business

According to the Purchasing Power Parity Theory, the difference between the between the current spot exchange rate and future spot exchange rate 3. According to the Fisher Effect, the sum of the real rate and inflation premium has an effect on the nominal rate of interest 4. According to the Interest Rate Parity Theory, the difference between the domestic and foreign interest rates has an effect on the forward premium or discount Multiple Choice Section: (8 X 2 = 16 points): According to the IFE, if British interest rates exceed U. S. interest rates: the British pound will depreciate against the dollar 2.

Assume the nominal US interest rate is 3% and the nominal Swiss rate is 6%. The real rate of interest in both country is 2%. According to the International Fisher Effect, the Swiss franc will depreciate by about 3% 3. According to the International Fisher Effect, if Country X has a much lower nominal rate than other countries, its inflation rate will likely be lower than other countries, and it currency will strengthen. 4. Given a home country and foreign country, Purchasing Power Parity (PPP) suggests that: home currency will depreciate if the current home inflation rate exceeds the current foreign inflation rate. 5.

In which case will locational arbitrage most likely be feasible? One banks bid price for a currency is greater than another banks ask price for the currency. 6. Given a home country and a foreign country, purchasing power parity suggests that: a. the inflation rates of both countries will be the same b. the nominal interest rates of both countries will be the same c. both a and b d. none of the above 7. same real rate of return, the differential in nominal interest rate among any two countries: is due to their inflation differential 8. If interest rate parity exists, then, covered interest arbitrage is not feasible.