

## FIN 565 Week 8 Final Exam

(100% Correct Answers)

**Question 1.1.** (TCO A) A high home inflation rate relative to other countries would\_\_\_\_\_the home country's current account balance, other things being equal. A high growth in the home income level relative to other countries would\_the home country's current account balance, other things being equal. (Points : 5)

increase; increase

increase; decrease

decrease;

decrease

decrease; increase

**Question 2.2.** (TCO A) Assume the Canadian dollar is equal to \$0.98 and the Brazilian real is equal to \$0.28. The value of the Brazilian real in Canadian dollars is (Points : 5)

about 0.3500 Canadian

dollars. about 0.2857

Canadian dollars. about

3.5714 Canadian dollars.

about 1.0204 Canadian

dollars.

**Question 3.3.** (TCO B) Assume that IRP holds and the euro's interest rate is 9%, whereas the U.S. interest rate is 12%. Then, the euro's interest rate increases to 11%, whereas the U.S. interest rate remains the same. As a result of the increase in the interest rate on euros, the euro's forward \_will\_\_\_\_\_in order to maintain IRP. (Points : 5)