Fiscal and Financial System in Japan A / International Finance
Quiz #1
October 11, 2013

1. How many yens would it cost to buy a pair of GAP jeans costing 60 US dollars if the exchange rate is 98.7 yens per one US dollar?

Answer 5,922 yens

2. Which one of the following statements is the most accurate?
   (a) A depreciation of a country's currency makes its goods cheaper for foreigners.
   (b) A depreciation of a country's currency makes its goods more expensive for foreigners.
   (c) A depreciation of a country's currency makes its goods cheaper for its own residents.
   (d) A depreciation of a country's currency makes its goods cheaper.
   (e) None of the above.

Answer (a)

3. Which one of the following statements is the most accurate?
   (a) The yen rate of return on dollar assets is approximately the dollar interest rate minus the rate of depreciation of the yen against the dollar.
   (b) The yen rate of return on dollar assets is approximately the dollar interest rate plus the rate of appreciation of the yen against the dollar.
   (c) The yen rate of return on dollar deposits is approximately the dollar interest rate plus the rate of depreciation of the yen against the dollar.

Answer (c)

4. If the dollar interest rate is 10 percent, the yen interest rate is 6 percent, and the expected return on dollar depreciation against the yen is 4 percent, then
   (a) an investor should invest only in dollars.
   (b) an investor should invest only in yens.
   (c) an investor should be indifferent between dollars and yens.
   (d) It is impossible to tell given the information.
   (e) All of the above.

Answer (c)

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5. Which of the following statements is the most accurate?
   (a) For a given yen interest rate and a given expectation with regard to the future exchange rate, a rise in the dollar interest rate causes the yen to depreciate.
   (b) For a given yen interest rate and a given expectation with regard to the future exchange rate, a rise in the dollar interest rate causes the yen to appreciate.
   (c) A rise in the dollar interest rate does not affect the value of the yen.
   (d) A rise in the dollar interest rate causes the yen to depreciate.
   (e) None of the above.

Answer (a)

6. Assume that the dollar interest rate is 0.05, the yen interest rate is 0.01, and the expected exchange rate is 98 yens per one US dollar.
   (a) Find the current exchange rate. Round off to one decimal place. [1]（小数点第 2 位以下四捨五入）

Answer 102.1 yens per dollar

   (b) Suppose that the yen interest rate rises to 0.02. How does the current exchange rate change? Find a new equilibrium exchange rate. Round off to one decimal place.

Answer 101 yens per dollar

[1] Example: 102.36 → 102.4.