

Chapter 7– Revision Questions

1. Why did Polish, Hungarian, Latvian and Slovakian homeowners with mortgages have very different experiences during the currency turmoil in the currency markets in 2008?
2. Explain the concepts of appreciation and depreciation in the context of exchange rates!
3. How does purchasing power parity inform foreign exchange rate movements?
4. How do interest rates influence movements in exchange rates?
5. Why do interest rates and current exchange rates together allow you to predict the forward rate?
6. How do different items in the balance of payment affect the demand for a country's currency?
7. How did the 'Bretton Woods' system of exchange rates work after 1945?
8. Why did the 'Bretton Woods' system of exchange rates brake down in the 1970s?
9. What is the function of the International Monetary Fund (IMF) in the global system of exchange rates?
10. What are the differences between free float, managed float, pegged exchange rates, and fixed exchange rates?
11. How does a currency board work?
12. How can companies organize their operations in ways that minimize the exchange rate risk they face?
13. How can firms financial market instruments to minimize the exchange rate risk they face?
14. Is the large balance of payments deficit of the USA a problem for the world economy?
15. Should companies always hedge their foreign currency exposure?