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| **Exercises from old exams to chapters in B & W.** |

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| **Chapter 5** |

**Exercise 1**

1. Define the real exchange rate and explain how it can appreciate. When do the nominal and real exchange rates move in tandem?
2. Explain the logic behind the principle of purchasing power parity.
3. In what way can a Central Bank cause high inflation?
4. Suppose during ten years that the yearly average GDP growth rate is 5 % and the average money growth rate is 8 %. What will happen to the nominal exchange rate if yearly inflation on average abroad has been 7 % in the same period?

**Exercise 2**

Explain the economic situation in a country if the real exchange rate increases while the foreign inflation rate is higher than the domestic inflation rate.

**Exercise 3**

Explain the principle of money neutrality.

**Exercise 4**

What is correct?

1. The real exchange rate:

a) depends on the nominal exchange rate, house prices and inflation abroad.

b) depends on the nominal exchange rate, domestic inflation and inflation abroad.

c) is independent of the nominal exchange rate due to money neutrality.

d) does not depend on inflation due to money neutrality.