Q-1. Solution: B.

The current account measures the flows of dividend.

Q-2. Solution: C.

Current Account Amounts with Signs and Grouped Appropriately:

Transaction	Amount	Totals
Export of goods and services and income receipts		**15,200**
Export of goods and services	12,000	
Investment income received from foreigners	3,200	
Import of goods and services and income payments		**-16600**
Import of goods and services	–14,200	
Investment income payments made to foreigners	–2,400	
Net unilateral current transfers		**–683**
Unilateral current transfers received	352	
Unilateral current transfers paid	–1,035	
Current account balance		**–2,083**

Q-3. Solution: B.

The number of forward points equals the forward rate minus the spot rate, or 0.14193 — 0.1378 = 0.00413, multiplied by 10,000: 10,000 X 0.00413 = 41.3 points. By convention, forward points are scaled so that ±1 forward point corresponds to a change of ±1 in the last decimal place of the spot exchange rate.

Q-4. Solution: A.

Real exchange rate = Nominal spot exchange rate × (CPI of the foreign country/CPI of the domestic country)

Change in the real exchange rate = [(1 + Change in exchange rate) ×(1 + Change in price level in foreign country)]/(1 + Change in price level in domestic country) – 1 = [(1+ 7.3%) × (1 – 3.8%)]/(1+ 2.3%) – 1= 0.9%

B is incorrect because the change in the nominal exchange rate is not included: (1 –3.8%)/(1 + 2.3%) – 1= –6%.

C is incorrect because the change in the price levels are inverted: [(1 + 7.3%) × (1 +2.3%)[/(1 – 3.8%) – 1= 14.1%.

Q-5.

Solution: C.

In a CBS, the monetary authority has an obligation to maintain 100% foreign currency reserves against the monetary base. It thus cannot lend to troubled financial institutions. As long as the country under a fixed-parity regime maintains its exchange peg, the central bank can serve as a lender of last resort.