

1. You are about to sit an online assessment

You have a 24-hour period in which to complete this exam. This 24-hour period is the time during which you can arrange to take the exam. It is NOT the length of the exam.

2. Advice on the contents of the exam and technical support

In case you should have questions about the contents of this paper, or you require technical assistance, please contact our virtual invigilation team at the [UofG Helpdesk](#).

Questions relating to the contents of the paper should be raised within the first 3 hours of the assessment period, when an academic member of staff will be available to answer these. Technical support will be available 24 hours per day. To ensure timely responses and that all students receive the same information, you should not contact academic staff directly but instead use the Helpdesk.

3. Completing the exam paper

It should take you no longer than 2 hours to complete this exam and you should pay specific attention to guidance provided on the exam paper regarding the total word count.

You should be able to complete the exam in the time indicated and are unlikely to derive major benefits from taking longer. Note that spending longer often leads to muddled answers which do not receive high grades. It is better to answer in a clear and concise fashion within the time limit given.

4. Time adjustments for students with disabilities

If you are normally granted adjustments to your exam time through the University's Disability Service, allowance is made for these since you have a 24-hour period in which to complete this exam.

5. Enlarging the text

In case you should need to enlarge the text of a PDF document:
open Adobe Acrobat; click on the VIEW tab; click on ZOOM and then ZOOM TO;
select the desired magnification level.

6. Planning your time

When planning your time, you should allocate 30 minutes to download the exam paper and a further 30 minutes to upload your answers to Moodle at the end of the exam. This is important as these times give you the ability to report any problems within the 24-hour exam availability period.

7. Submitting your answers

Acceptable file types for submitting typed documents are: DOC/DOCX; RTF; PDF; XLS/XLSX

Acceptable file types for submitting *high resolution* images are: JPG; PNG; TIF; PDF

In case you are unable to upload your answers to Moodle you may email them to: business-school-assessment@glasgow.ac.uk.

- Only one file should be submitted per question.
- Ensure you save your document using your student ID, course code and question number, e.g 7299019_ACCFIN4029_1.

8. Declaration of Academic Integrity

Your answers must entirely be your own work. During the 24-hour period that this exam is active, you must not for any reason communicate or collude with other students taking this exam. Note that your exam papers may be processed through Turnitin for plagiarism checking. We may also conduct a further oral examination to check your knowledge and establish that the exam answers are your own. This declaration incorporates the University's Declaration of Originality which applies to all academic work (see below).

9. Declaring that the work is your own

By selecting the check box to open the exam paper, you have agreed to both this declaration and the University's Declaration of Originality.

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Section A

You must answer ONE question from this section. Answers to each sub-question should adhere to the reported word limit. Anything you write once you have reached the word limit will not be marked. All questions are of equal weighting.

Question 1

Suppose that the demand function for real money balances in the domestic country is in logarithmic form as follows:

$$m_t^d - p_t = \eta y_t + \gamma w_t - \sigma R_t,$$

with $\eta > 0$, $\gamma > 0$, and $\sigma > 0$. m_t^d denotes the logarithm of nominal money demand, p_t the logarithm of the price level, y_t the logarithm of real income, w_t the logarithm of real wealth, and R_t the nominal interest rate. The corresponding real money demand function in the foreign country is as follows:

$$m_t^{d*} - p_t^* = \eta y_t^* + \gamma w_t^* - \sigma R_t^*,$$

where * denotes magnitudes in the foreign country.

Using the flexible-price monetary model of the exchange rate answer the following questions:

- 1.1 Show that the current exchange rate of the domestic currency depends on the expected exchange rate. Comment on your findings (**maximum 400 words**). (15%)
- 1.2 Discuss how changes in the domestic money supply can influence the current exchange rate (**maximum 400 words**). (15%)
- 1.3 Discuss whether in an economy experiencing very strong economic growth and a persistent current account surplus, and in which the domestic nominal interest rate is equal to the foreign nominal interest rate, it is possible to observe both a higher growth of the domestic nominal money supply relative to the foreign one and an appreciating domestic currency (**maximum 700 words**). (20%)

(Total 50%)

Question 2

In the context of the Dornbusch model of inflexible goods prices and assuming that the foreign nominal interest rate, foreign nominal money supply, foreign goods prices, and foreign real income remain constant, please answer the following questions:

- 2.1 Assuming in addition that the domestic real income remains constant, discuss what happens to the exchange rate of the domestic currency in both the short-run and the long-run if the domestic central bank decreases the money supply (**maximum 600 words**).

(20%)

- 2.2 Assuming now that the domestic nominal supply remains constant, discuss what happens to the exchange rate of the domestic currency in both the short-run and the long-run if domestic real income increases (**maximum 600 words**).

(30%)

(Total 50%)

Section B

You must answer **ONE** question from this section. Answers to each sub-question should adhere to the reported word limit. Anything you write once you have reached the word limit will not be marked. All questions are of equal weighting.

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Question 3

Consider a two-country open economy, consisting of United Kingdom (home country) and the United States (foreign country) and answer the following questions.

- 3.1 Define the Uncovered Interest Rate Parity (UIP) condition by explaining every term and discuss its economic implications. (**maximum 500 words**)

(15%)

- 3.2 Critically evaluate Carry Trade and discuss how it relates to the UIP. (**maximum 400 words**)

(15%)

- 3.3 If the interest rate on UK bonds is $i_t = 4\%$ and the interest rate on US bonds is $i_t^* = 2\%$, discuss the expected exchange rate movements, under which a Carry Trade strategy would be profitable. (**maximum 600 words**)

(20%)

(Total 50%)

Question 4

In the context of Currency Crises answer the following questions:

- 4.1 Define Currency Crises and comment on their frequency. Then present and briefly explain all their different categories. **(maximum 450 words)**
(15%)
- 4.2 Critically discuss the ERM (European Exchange Rate Mechanism) Crisis of 1992 and present the sequence of events as it unfolded. **(maximum 450 words)**
(15%)
- 4.3 Critically assess the role of contagion in the so called ``Twin'' Crises by also providing historical examples. (i.e. jointly financial sector and currency crises) **(maximum 600 words)**
(20%)
(Total 50%)

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