

i SØK2009_V21_forside

Department of Economics

Examination paper for SØK2009 – International Macroeconomics

Examination date: 03.06.21

Examination time (from-to): 09.00 – 13.00

Permitted examination support material: A / All support material is allowed

Academic contact during examination: Hildegunn E. Stokke

Phone: 97199454

Technical support during examination: Orakel support services

Phone: 73 59 16 00

If you experience technical problems during the exam, contact Orakel support services as soon as possible before the examination time expires. If you don't get through immediately, hold the line until your call is answered.

OTHER INFORMATION

Make your own assumptions: If a question is unclear/vague, make your own assumptions and specify them in your answer. Only contact academic contact in case of errors or insufficiencies in the question set.

Cheating/Plagiarism: The exam is an individual, independent work. Examination aids are permitted, but make sure you follow any instructions regarding citations. During the exam it is not permitted to communicate with others about the exam questions, or distribute drafts for solutions. Such communication is regarded as cheating. All submitted answers will be subject to plagiarism control. [Read more about cheating and plagiarism here.](#)

Citations: We do not require referencing/citations.

Notifications: If there is a need to send a message to the candidates during the exam (e.g. if there is an error in the question set), this will be done by sending a notification in Inspira. A dialogue box will appear. You can re-read the notification by clicking the bell icon in the top right-hand corner of the screen. All candidates will also receive an SMS to ensure that nobody misses out on important information. Please keep your phone available during the exam.

Weighting: The exam consists of two questions and you are asked to answer both. The questions are weighted equally in the grading.

ABOUT SUBMISSION

File upload: When working in other programs because parts of/the entire answer should be uploaded as a file attachment – make sure to save your work regularly.

All files must be uploaded before the examination time expires.

The file types allowed are specified in the upload assignment(s).

30 minutes are added to the examination time to manage the sketches/calculations/files. The additional time is included in the remaining examination time shown in the top left-hand corner.

NB! You are responsible to ensure that the file(s) are correct and not corrupt/damaged. Check the file(s) you have uploaded by clicking "Download" when viewing the question. All files can be removed or replaced as long as the test is open.

[How to digitize your sketches/calculations](#)

[How to create PDF documents](#)

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Automatic submission: Your answer will be submitted automatically when the examination time expires and the test closes, if you have answered at least one question. This will happen even if you do not click "Submit and return to dashboard" on the last page of the question set. You can reopen and edit your answer as long as the test is open. If no questions are answered by the time the examination time expires, your answer will not be submitted. This is considered as "did not attend the exam".

Withdrawing from the exam: If you become ill, or wish to submit a blank test/withdraw from the exam for another reason, go to the menu in the top right-hand corner and click "Submit blank". This cannot be undone, even if the test is still open.

Accessing your answer post-submission: You will find your answer in Archive when the examination time has expired.

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[Exam_SOK2009_V21_eng](#)



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Maximum marks: 10

Question 1
Attached



Exam SØK2009 spring 2021

The exam consists of two questions and you are asked to answer both. The questions are weighted equally in the grading.

Question 1

- a) Assume that you are an American investor considering investing in euro or dollar. Discuss factors that would influence your decision.
- b) Assume that the dollar and euro interest rates equal 3% and 1.5%, respectively. The current dollar per euro exchange rate is 1.05 and is expected to equal 1.08 in a year. Based on this, should you invest in dollar or euro? Explain.
- c) Illustrate the equilibrium in the foreign exchange market graphically. First, explain the economic intuition behind the slopes of the involved curves. Second, explain how the foreign exchange market reaches an equilibrium exchange rate.
- d) Illustrate the equilibrium in the money market graphically. First, explain the economic intuition behind the slopes of the involved curves. Second, explain how the money market reaches an equilibrium interest rate.
- e) Illustrate and explain short-run and long-run effects of a permanent increase in the money supply on the interest rate and the exchange rate.
- f) Assume that a country has a fixed exchange rate regime where its currency is fixed against the dollar. Explain what this means for the country's economic policy. Discuss how the country can defend the fixed exchange rate in a situation with strong expectations of devaluation.

Question 2

The introduction of the Euro was motivated partly by the need to control inflation.

- a) Explain the incentive for surprise inflation that results in high equilibrium inflation.
- b) Show how equilibrium inflation varies between countries because of differences in the preferences of governments.
- c) Discuss how membership of the Euro can help solve the inflation problem of a country.