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**Instruction:** Answer whether the following statements are true or false. When you think it is true write "T" in front of the question. Write "F" otherwise. (1 point each)

1. Suppose the U.S. is expected to maintain much lower inflation than Japan for years to come. The purchasing power parity suggests that the U.S. dollar will depreciate against the Yen.

2. The difference between the U.S. and Japan’s expected inflation in Question 1 also implies that the nominal interest rate in Japan is expected to rise.

3. The relative purchasing power parity assumes that real exchange rate is unity.

4. The monetary approach of long run exchange rate determination predicts that the time path of exchange rate is the same as that of domestic inflation.

5. The monetary approach says that exchange rate is determined in the money market depending on interest rate. Therefore, it implies that monetary policy is relevant but fiscal policy is not.

6. According to the monetary approach, we can predict that a decrease of demand to the U.S. goods will reduces the U.S. price level and the dollar will appreciate.

7. Balassa-Samuelson hypothesis suggests that a pair of two countries may experience deviations from the purchasing power parity if the economic growth in one of the economies is concentrated in the service sector.

8. According to the general theory of long run exchange rate determination, real exchange rate appreciates when nominal exchange rate appreciates.

9. The general theory of long run exchange rate determination predicts that output expansion makes nominal exchange rate depreciate.

10. The general theory of long run exchange rate determination does not give a clear prediction about nominal exchange rate when we expect inflation to rise.