UNIVERSITÄT OSNABRÜCK
FACHBEREICH WIRTSCHAFTSWISSENSCHAFTEN

Cover page
(Klausurdeckblatt)

Exam in subject (Prüfung im Fach)	International Finance
Examiner (Prüfer)	Prof. Frank Westermann, Ph.D.
Date (Datum)	19.07.2023

Participant
(Klausurteilnehmer/in)

Course of studies (Studiengang)	
Last name, first name (Name, Vorname)	
Matriculation number (Matrikel-Nr.)	

Points obtained
Erreichte Punkte

* Please answer all questions *
(Es sind alle Aufgaben zu bearbeiten)

Points (Punkte)			
A1	**A2**	**A3**	**A4**

Grading
(Benotung)

Total score (Gesamtpunktzahl)	
Grade (Modulnote)	
Examiner signature (Prüferunterschrift)	

Chair of International Economic Policy
Prof. Frank Westermann, Ph.D.

Exam in "International Finance"

Summer semester 2023

Total points: 60 points

For all questions: Please label all graphics thoroughly and completely describe the notation of all formulas and variables!

Question 1: Mundell-Fleming model (15 points)

a) Starting from the flow-identity in the open economy: $Y = A\begin{pmatrix} Y & r & \overline{T} & \overline{G} \\ +, & -, & -, & + \end{pmatrix} + TB\begin{pmatrix} \overline{e} & Y & \overline{Y^*} \\ +, & -, & + \end{pmatrix}$, derive the slope of the open-economy IS-curve, using the total differential. (7 points)

b) Discuss the effect of an exchange rate appreciation on the IS curve. (3 points)

c) Under the assumption of flexible exchange rates, use an appropriate graph to illustrate the effect of expansionary fiscal policy in the open economy. (5 points)

Question 2: Boom-bust cycles (15 points)

a) Describe the characteristics of the tradable and non-tradable sectors in the Tornell and Schneider model. (3 points)

b) Discuss the balance sheet effects that the exchange rate can trigger in this model. (4 points)

c) Consider now the 1-sector model (Financial Accelerator model). Name the break-even condition for international lenders. (2 points)

d) Derive the financial multiplier with risky investment. Explain how the probability of a crisis influences the credit volume. (6 points)

Question 3: Exchange rate determination and interest rate parity (16 points)

a) Name and explain one key assumption that distingishes the monetary from the portfolio blance model of the exchange rate. (4 points)

b) Which empirical pattern of exchange rates does the monetary model help to explain? (2 points)

c) Assume the exchange rate is determined by the Dornbusch model (monetary model). Graphically show and explain the short- and long-run effects of a reduction in domestic money supply. Start from an equilibrium situation. (8 points)

d) Interest rate parity is one key implication of the Monetary Model. Write down the formal definition. (2 points)

Question 4: Purchasing Power Parity (PPP) (14 points)

a) Give the definition of Purchasing Power Parity in absolute and relative terms. (4 points)

b) Explain the Engle Granger 2- Step approach to test for PPP. Why is this an appropriate test? (7 points)

c) Discuss one criticism of this PPP-test approach. (3 points)

The Chair of International Economic Policy wishes you good luck!

Please sign the exam on the last page before handing it in.