



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: O7BEC0	LEVEL: 7
COURSE CODE: IFN712S	COURSE NAME: INTERNATIONAL FINANCE
SESSION: DECEMBER 2025	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
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INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL the questions.2. Write clearly and neatly.3. Number the answers clearly.

PERMISSIBLE MATERIALS

1. Pens/pencils/erasers
2. Calculator
3. Ruler

THIS QUESTION PAPER CONSISTS OF 9 PAGES (Including this front page)

QUESTION 1 [25 Marks]

Select the letter that best represents your choice.

1. International capital markets experience a kind of risk not faced in domestic capital markets, namely

- A) "economic meltdown" risk.
- B) Flood and hurricane crisis risk.
- C) the risk of unexpected downgrading of assets by Standard and Poor.
- D) the risk of exchange rate fluctuations.
- E) the risk of political upheaval

2. A country's gross national product (GNP) is

- A) the value of all final goods and services produced by its factors of production and sold on the market in a given time period.
- B) the value of all intermediate goods and services produced by its factors of production and sold on the market in a given time period.
- C) the value of all final goods produced by its factors of production and sold on the market in a given time period.
- D) the value of all final goods and services produced by its factors of production and sold on the market.
- E) the value of all final goods and services produced by its factors of production, excluding land, and sold on the market in a given time period.

3. GDP is supposed to measure

- A) the volume of production within a country's borders.
- B) the volume of services generated within a country's borders.
- C) the volume of production of a country's output.
- D) GNP plus depreciation.
- E) net unilateral transfers from foreigners.

4. Which one of the following expressions is the MOST accurate?

- A) $CA = IM - EX$
- B) $CA = EX - IM$
- C) $CA = EX = IM$
- D) $CA = EX + IM$
- E) $CA - IM = EX$

5. Government savings, S^g , is equal to

- A) $T - G$.
- B) $T + G$.
- C) $T = G$.
- D) $T + G - I$.
- E) $T - G = I$.

6. The sale of

- A) a used textbook does enter GNP.
- B) a used textbook does not enter GNP, but the sale of a used house does.
- C) both a used textbook and a used house do not enter GNP.
- D) a used house does not enter GNP, but the sale of a used book does.
- E) the GNP does not include sale of used items priced below \$1000.

7. Every international transaction automatically enters the balance of payments

- A) once either as a credit or as a debit.
- B) twice, once as a credit and once as a debit.
- C) once as a credit.
- D) twice, both times as debit.
- E) three times, once as a credit, once as a debit, and once as an exchange.

8. An open economy

- A) can save only by building up its capital stock.
- B) can save only by acquiring foreign wealth.
- C) cannot save either by building up its capital stock or by acquiring foreign wealth.
- D) can save either by building up its capital stock or by acquiring foreign wealth.
- E) can save by avoiding excessive imports.

9. Which one of the following statements is the MOST accurate?

- A) A depreciation of a country's currency makes its goods cheaper for foreigners.
- B) A depreciation of a country's currency makes its goods more expensive for foreigners.
- C) A depreciation of a country's currency makes its goods cheaper for its own residents.
- D) A depreciation of a country's currency makes its goods cheaper.
- E) An appreciation of a country's currency makes its goods more expensive.

10. Forward and spot exchange rates

- A) are necessarily equal.
- B) do not move closely together.
- C) are always such that the forward exchange rate is higher.
- D) move closely together and are equal on the value date.
- E) are unrelated to the value date.

11. Futures contracts differ from forward contracts in that

- A) future contracts ensures you will receive a certain amount of foreign currency at a specified future date.
- B) future contracts bind you into your end of the deal.
- C) future contracts allow you to sell your contract on an organized futures exchange.
- D) future contracts are a disadvantage if your views about the future spot exchange rate are to change.
- E) futures contracts don't allow you to realize a profit or a loss right away.

12. The earnings of a Spanish factory with British owners are

- A) counted in Spain's GDP.
- B) part of Britain's GNP.
- C) only counted in Britain's GDP.
- D) only part of Spain's GNP.
- E) counted in Britain's GDP and are a part of Spain's GNP.

13. Individuals base their demand for an asset on

- A) the expected return the asset offers compared with the returns offered by other assets.
- B) the riskiness of the asset's expected return.
- C) the asset's liquidity.
- D) the expected return, how risky that expected return is, and the asset's liquidity.
- E) the aesthetic qualities of the asset.

14. The aggregate demand for money can be expressed by

- A) $M_d = P \times L(R, Y)$.
- B) $M_d = L \times P(R, Y)$.
- C) $M_d = P \times Y(R, L)$.
- D) $M_d = R \times L(P, Y)$.
- E) $M_d = R \times L(R, P)$.

15. How many British pounds would it cost to buy a pair of American designer jeans costing \$45 if the exchange rate is 2.00 dollars per British pound?

- A) 22.5 British pounds
- B) 32.5 British pounds
- C) 12.5 British pounds
- D) 40 British pounds
- E) 30 British pounds

16. If there is an excess supply of money

- A) the interest rate rises.
- B) the interest rate falls.
- C) the real money supply shifts left to make an equilibrium.
- D) the real money supply shifts right to make an equilibrium.
- E) the interest rate stays constant, but consumer confidence falters.

17. A permanent increase in a country's money supply

- A) causes a more than proportional increase in its price level.
- B) causes a less than proportional increase in its price level.
- C) causes a proportional increase in its price level.
- D) leaves its price level constant in long-run equilibrium.
- E) causes an inversely proportional fall in its price level.

18. After a permanent increase in the money supply

- A) the exchange rate remains the same.
- B) the exchange rate overshoots in the long run.
- C) the exchange rate smoothly depreciates in the short run.
- D) the exchange rate smoothly appreciates in the short run.
- E) the exchange rate overshoots in the short run.

19. When a country's currency depreciates

- A) foreigners find that its exports are more expensive, and domestic residents find that imports from abroad are more expensive.
- B) foreigners find that its exports are more expensive, and domestic residents find that imports from abroad are cheaper.
- C) foreigners find that its exports are cheaper; however, domestic residents are not affected.
- D) foreigners are not affected, but domestic residents find that imports from abroad are more expensive.
- E) foreigners find that its exports are cheaper and domestic residents find that imports from abroad are more expensive.

20. Which of the following statements is the MOST accurate? In general

- A) the monetary approach to the exchange rate is a long run theory.
- B) the monetary approach to the exchange rate is a short run theory.
- C) the monetary approach to the exchange rate is both a short and long run theory.
- D) the monetary approach to the exchange rate neither long run nor short run theory.
- E) the monetary approach to the exchange rate is considered less practical than the law of one price.

21. Which of the following statements is the MOST accurate?

- A) The law of one price does fare well in all recent studies.
- B) The law of one price does fare well in many recent studies.
- C) The law of one price sometimes fares well in recent studies.
- D) The law of one price does not fare well in recent studies.
- E) The law of one price has not been studied recently.

22. Interest rate differences between countries depend on

- A) differences in expected inflation, but not on expected changes in the real exchange rate.
- B) differences in expected changes in the real exchange rate, but not on expected inflation.
- C) neither differences in expected inflation, nor on expected changes in the real exchange rate.
- D) differences in expected inflation and nothing else.
- E) differences in expected inflation, and on expected changes in the real exchange rate.

23. The liabilities side of a central bank's accounts consists of

- A) deposits held by private banks.
- B) currency in circulation.
- C) deposits held by private banks and currency in circulation.
- D) deposits held by foreign banks, domestic assets, and currency in circulation.
- E) foreign assets and domestic assets.

24. The dollar rate of return on euro deposits is

- A) approximately the euro interest rate minus the rate of depreciation of the dollar against the euro.
- B) approximately the euro interest rate plus the rate of depreciation of the dollar against the euro.
- C) the euro interest rate minus the rate of inflation against the euro.
- D) the rate of appreciation of the dollar against the euro.
- E) the euro interest rate plus the rate of inflation against the euro.

25. An increase in the real exchange rate

- A) makes imports less expensive.
- B) makes imports more expensive.
- C) does not affect import values.
- D) always makes the number of imports rise.
- E) makes domestic consumers spend more on only foreign imports

QUESTION 2

[25 Marks]

1. Given: $C = 600, I = 200, G = 300, X = 150, M = 250$.

Calculate the following:

- (a) Gross Domestic Product (GDP) (3)
 - (b) National saving (2)
 - (c) Net exports (2)
 - (d) Interpret the economic meaning of the results. (2)
2. What are the main components of the Balance of Payments? Briefly describe each component. (6)
3. Use the information in the table below to calculate the expected dollar depreciation Rate against the euro and the expected dollar return on euro deposits if the expected exchange rate is \$1.10 per euro. Round your answer to six decimal places. (10)

Today's Dollar/Euro Exchange Rate $E_{\$/\epsilon}$	Interest Rate on Euro Deposits R_{ϵ}	Expected Dollar Depreciation Rate Against Euro $(1.10 - E_{\$/\epsilon})/E_{\$/\epsilon}$	Expected Dollar Return on Euro Deposits $R_{\epsilon} + (1.10 - E_{\$/\epsilon})/E_{\$/\epsilon}$
1.10	0.03		
1.08	0.03		
1.06	0.03		
1.04	0.03		
1.02	0.03		

QUESTION 3 [25 Marks]

1. Discuss the shortcomings of the PPP and the law of one price in explaining actual data on exchange rates and national price levels (15)
2. draw a figure illustrating the actions the central bank must take to maintain a fixed exchange rate following an increase in output. (10)

QUESTION 4 [25 Marks]

1. Write down the equation for a country's domestic currency's real exchange rate, q . (1)
2. If the central bank does not purchase foreign assets when output increases but instead holds the money stock constant, can it still keep the exchange rate at the fixed level? Please explain. (5)
3. Explain how the AA schedule is derived. (5)
4. What are two ways the government can use to maintain full employment in an open economy? Also give an example for each. (4)
5. Discuss the volume effect and the value effect regarding how the current account will move given a change in the real exchange rate. (10)

TOTAL = 100 MARKS