

Written Exam for the M.Sc. in Economics summer 2012

International Finance

Master's Course

June 1, 2012

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by "eksamen på dansk" in brackets, you must write your exam paper in Danish.

If you are in doubt about which title you registered for, please see the print of your exam registration from the students' self-service system.

Written exam for the M. Sc in Economics International Finance

June 1, 2012

Number of questions: This exam consists of 3 questions.

1. **Which of the following statements are correct? Remember to provide a brief explanation.**
 - (a) The bandwagon effect is when an investor follows the actions of a dominant player on the foreign exchange market.
 - (b) According to chartists, the current value of a currency is a function of its historical values.
 - (c) Releases of new macro data may not need to affect spot exchange rate.
2. **Central Bank intervention: The portfolio balance channel**
 - (a) Illustrate the portfolio model in a graph and explain carefully the underlying assumptions and equilibrium relations.
 - (b) Contrast the effects of a sterilized and a non-sterilized foreign exchange operation in the portfolio balance model.
3. **Microstructure**
 - (a) What are the basic assumptions underlying and features of the portfolio shifts model.
 - (b) Illustrate the daily timing in the portfolio shifts model and explain carefully how trades take place in the retail and in the interbank market. Pay special attention to how information is transmitted from customers to individual dealers. [Note that you are not required to write down the full model!]
 - (c) Summarize the empirical evidence based on single-currency studies