1. Consider the following data, reported in millions of dollars for two countries:

|  |  |  |
| --- | --- | --- |
|  | Country A | Country B |
| Exports | 1000 | 1400 |
| Annual interest payment on Foreign Debt | 50 | 60 |
| Annual payment (principal) on Foreign Debt | 200 | 240 |

2. Compare the two countries in terms of country risk. Fill in the table “Types of crises”

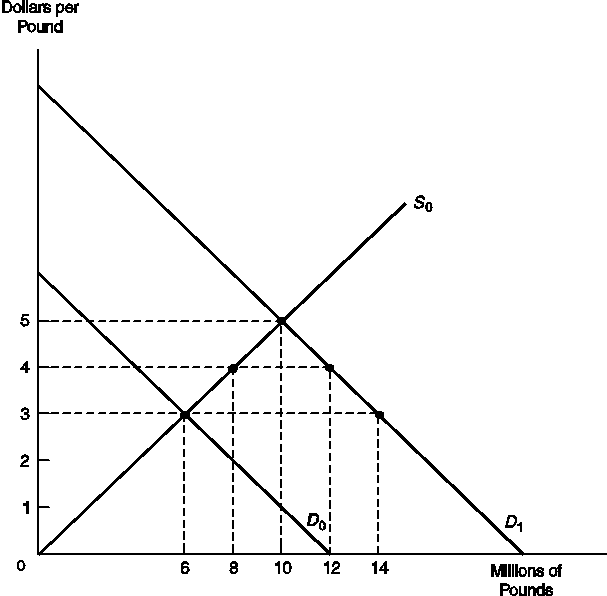
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| --- | --- | --- |
| Crisis type | Characteristics | Examples |
| Hyperinﬂation | A rapid increase in the overall price level of a country,  typically deﬁned to be 40 percent or higher on an  annual basis. | Zimbabwe, 1998–2009 |
| Balance of payments  and currency  crises |  | Mexico, 1994–1995, and  Brazil, 1999 |
| Asset price deﬂation | A sustained and large decline in the prices of ﬁnancial  assets. | Japan, 1990, and United  States, 2007–2009 |
| Banking crises |  | Argentina, 2001 |
| External debt crises |  | Mexico, 1982 |
| Domestic debt crises |  | Argentina, 1989 |

3. Fill in the table “The Basel Accords”

|  |  |  |
| --- | --- | --- |
| Stage | Years of approval/  implementation | Components |
| Basel I | 1988/1992 | Proposed regulatory capital requirements of 8 percent. |
| Basel II | 2004/2007 |  |
| Basel III | 2010/2013–2018 |  |

4.The next three questions pertain to Figure 4.1 which represents the exchange market position of the United States in trade with the United Kingdom. Starting at the equilibrium exchange rate of $3 per pound, suppose the demand for pounds rises from D0 to D1.

Figure 4.1 Foreign Exchange Market



4.1 Refer to Figure 4.1. Under a fixed exchange rate system, U.S. monetary authorities would have to supply 8 million pounds in exchange for dollars to keep the exchange rate at $3 per pound.

4.2 Refer to Figure4.1. If the exchange rate was allowed to rise to $4 per pound, U.S. monetary authorities would have to supply 6 million pounds to the foreign exchange market in exchange for dollars to maintain this rate.

4.3 Refer to Figure 4.1. Under a floating exchange rate system, the exchange rate would rise to $4 and U.S. monetary authorities would have to supply 4 million pounds to the foreign exchange market in exchange for dollars to maintain this rate.