Econ102D, MID #2, W11

	V/T	F					V/T	F					V/T	F			
1	A	B	C	D	**E**	61	A	B	C	D	E	121	A	B	C	D	E
2	A	B	**C**	D	E	62	A	B	C	D	E	122	A	B	C	D	E
3	**A**	B	C	D	E	63	A	B	C	D	E	123	A	B	C	D	E
4	A	B	C	**D**	E	64	A	B	C	D	E	124	A	B	C	D	E
5	**A**	B	C	D	E	65	A	B	C	D	E	125	A	B	C	D	E
6	A	B	C	**D**	E	66	A	B	C	D	E	126	A	B	C	D	E
7	A	B	C	**D**	E	67	A	B	C	D	E	127	A	B	C	D	E
8	**A**	B	C	D	E	68	A	B	C	D	E	128	A	B	C	D	E
9	A	B	**C**	D	E	69	A	B	C	D	E	129	A	B	C	D	E
10	A	**B**	C	D	E	70	A	B	C	D	E	130	A	B	C	D	E
11	A	**B**	C	D	E	71	A	B	C	D	E	131	A	B	C	D	E
12	A	B	**C**	D	E	72	A	B	C	D	E	132	A	B	C	D	E
13	A	B	**C**	D	E	73	A	B	C	D	E	133	A	B	C	D	E
14	A	B	**C**	D	E	74	A	B	C	D	E	134	A	B	C	D	E
15	A	B	**C**	D	E	75	A	B	C	D	E	135	A	B	C	D	E
16	A	B	**C**	D	E	76	A	B	C	D	E	136	A	B	C	D	E
17	A	**B**	C	D	E	77	A	B	C	D	E	137	A	B	C	D	E
18	A	**B**	C	D	E	78	A	B	C	D	E	138	A	B	C	D	E
19	A	**B**	C	D	E	79	A	B	C	D	E	139	A	B	C	D	E
20	A	**B**	C	D	E	80	A	B	C	D	E	140	A	B	C	D	E
21	A	**B**	C	D	E	81	A	B	C	D	E	141	A	B	C	D	E
22	A	B	**C**	D	E	82	A	B	C	D	E	142	A	B	C	D	E
23	A	B	C	D	**E**	83	A	B	C	D	E	143	A	B	C	D	E
24	A	**B**	C	D	E	84	A	B	C	D	E	144	A	B	C	D	E
25	A	**B**	C	D	E	85	A	B	C	D	E	145	A	B	C	D	E
26	A	B	**C**	D	E	86	A	B	C	D	E	146	A	B	C	D	E
27	A	**B**	C	D	E	87	A	B	C	D	E	147	A	B	C	D	E
28	A	B	C	**D**	E	88	A	B	C	D	E	148	A	B	C	D	E
29	A	**B**	C	D	E	89	A	B	C	D	E	149	A	B	C	D	E
30	A	B	C	**D**	E	90	A	B	C	D	E	150	A	B	C	D	E
31	A	B	C	**D**	E	91	A	B	C	D	E	151	A	B	C	D	E
32	A	**B**	C	D	E	92	A	B	C	D	E	152	A	B	C	D	E
33	A	B	C	**D**	E	93	A	B	C	D	E	153	A	B	C	D	E
34	A	B	C	**D**	E	94	A	B	C	D	E	154	A	B	C	D	E
35	A	B	**C**	D	E	95	A	B	C	D	E	155	A	B	C	D	E
36	**A**	B	C	D	E	96	A	B	C	D	E	156	A	B	C	D	E
37	A	B	**C**	D	E	97	A	B	C	D	E	157	A	B	C	D	E
38	A	**B**	C	D	E	98	A	B	C	D	E	158	A	B	C	D	E
39	A	**B**	C	D	E	99	A	B	C	D	E	159	A	B	C	D	E
40	A	B	C	**D**	E	100	A	B	C	D	E	160	A	B	C	D	E
41	A	B	**C**	D	E	101	A	B	C	D	E	161	A	B	C	D	E
42	A	B	**C**	D	E	102	A	B	C	D	E	162	A	B	C	D	E
43	A	B	C	D	E	103	A	B	C	D	E	163	A	B	C	D	E
44	A	B	C	D	E	104	A	B	C	D	E	164	A	B	C	D	E
45	A	B	C	D	E	105	A	B	C	D	E	165	A	B	C	D	E
46	A	B	C	D	E	106	A	B	C	D	E	166	A	B	C	D	E
47	A	B	C	D	E	107	A	B	C	D	E	167	A	B	C	D	E
48	A	B	C	D	E	108	A	B	C	D	E	168	A	B	C	D	E
49	A	B	C	D	E	109	A	B	C	D	E	169	A	B	C	D	E
50	A	B	C	D	E	110	A	B	C	D	E	170	A	B	C	D	E
51	A	B	C	D	E	111	A	B	C	D	E	171	A	B	C	D	E
52	A	B	C	D	E	112	A	B	C	D	E	172	A	B	C	D	E
53	A	B	C	D	E	113	A	B	C	D	E	173	A	B	C	D	E
54	A	B	C	D	E	114	A	B	C	D	E	174	A	B	C	D	E
55	A	B	C	D	E	115	A	B	C	D	E	175	A	B	C	D	E
56	A	B	C	D	E	116	A	B	C	D	E	176	A	B	C	D	E
57	A	B	C	D	E	117	A	B	C	D	E	177	A	B	C	D	E
58	A	B	C	D	E	118	A	B	C	D	E	178	A	B	C	D	E
59	A	B	C	D	E	119	A	B	C	D	E	179	A	B	C	D	E
60	A	B	C	D	E	120	A	B	C	D	E	180	A	B	C	D	E

University of Ottawa
ECO1102 D
Midterm # 2 (March 25, 2011)

Name________________________
Student number_________________

Short-Answer Questions (16 points)
Answer in the space provided.

43. (4 points) Provide some reason why the Japanese Yen has recently been appreciating despite Japan's economy being in tatters because of the earthquake and ensuing tsunami.

- Because speculators are anticipating that because of the high cost of reconstructing, Japan will have to borrow from the rest of the world and/or repatriate financial assets, which, according to the Interest Rate Parity Theory, should result in an appreciation of the yen.

- Also, foreign bargain hunters may have been buying "undervalued" Japanese equity.

3

44. (~~4~~ points) Suppose a can of pop costs \$0.80 in Canada and 12 pesos in Mexico. held

a. What would the peso-dollar exchange rate be if purchasing-power parity ~~holds~~?

2

Under PPP,

$$e = \frac{P^*}{P}$$

$$\Rightarrow e = \frac{12 \text{ pesos}}{0.8 \text{ CAD}} = 15 \text{ pesos/CAD}$$

b. If monetary policy caused all prices in Mexico to increase by 50 percent relative to Canada, what do you expect would happen to the peso-dollar exchange rate?

1

$\Rightarrow$ would increase by 50% (to 22.5 pesos/CAD)

University of Ottawa
ECO1102 D
Midterm # 2 (March 25, 2011)

Name________________________
Student number_________________

9

45. (~~8~~ points) Suppose that real GDP is expected to grow by 3 per cent next year. What would you expect the BofC to do if it has an inflation target of 2 per cent and that Money Supply is currently increasing at 4 per cent a year? What would you expect to happen to interest rates, the real exchange rate and net exports? Explain.

3

$\%\Delta Y = 0.03$

$\%\Delta P = 0.02$

$\%\Delta M = 0.04$

$\%\Delta M \approx \%\Delta P + \%\Delta Y \approx 0.02 + 0.03 = 0.05$

Assuming constant velocity (as usual), Money supply should increase by 5% instead of 4%.
⇒ BofC will accelerate growth in Money supply

2

To do that, BofC will reduce the bank rate/overnight rate or carry open-market purchases one way or the other, this will reduce interest rates, which according to the IRP theory, will 1

2 lower the real exchange rate and, as a result,

1 increase net exports.