1. Similar to stock and commodity exchanges, the foreign exchange is an organized structure with a central meeting place and formal licensing requirements.
   **True-False-Uncertain: Explain**

2. Foreign-exchange brokers help commercial banks carry out foreign exchange transactions and maintain desired balances of foreign exchange.
   **True-False-Uncertain: Explain**

3. The demand curve for foreign exchange represents the credit side of all transactions on the balance-of-payments.
   **True-False-Uncertain: Explain**

4. In the forward market, the exchange rate is agreed on at the time of the currency contract, but payment is not made until the future delivery date occurs.
   **True-False-Uncertain: Explain**

5. As the dollar’s exchange value appreciates against the pound, U.S. residents tend to import more British goods and thus demand more pounds.
   **True-False-Uncertain: Explain**

6. If the exchange rate is $0.013 per yen and in New York and ¥66.667 per dollar in Tokyo, an arbitrager could profit by selling yen in Tokyo and simultaneously buying them in New York.
   **True-False-Uncertain: Explain**

7. If it takes €1.5625 to purchase one pound, it takes £0.640 to purchase one euro.
   **True-False-Uncertain: Explain**

8. An increase in U.S. imports from France will give rise to a supply of francs in exchange for dollars.
   **True-False-Uncertain: Explain**
9. Use the following exchange rates on three different exchanges to answer the next two questions:

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Rate</th>
<th>Exchange</th>
<th>Rate</th>
<th>Exchange</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>¥/$ = 0.008</td>
<td>Tokyo</td>
<td>¥/$ = 125</td>
<td>Paris</td>
<td>¥/$ = 0.05</td>
</tr>
<tr>
<td></td>
<td>¥/$ = 0.20</td>
<td></td>
<td>¥/$ = 20.0</td>
<td></td>
<td>¥/$ = 5.0</td>
</tr>
</tbody>
</table>

a. Are there any opportunities for two-point arbitrage profits? Justify your answer.

b. Are there any opportunities for three-point arbitrage profits? If so, show how to make a profit.

10. Suppose you are an international investor with **20 million** dollars to invest for six months. Assume that the following exchange rates and interest rates prevail:

- Spot E.R. = 0.008
- Forward E.R. = 0.0082 (180 days forward)
- U.S. i-rate = 8% (4% for 180 days)
- Japan i-rate = 4% (2% for 180 days)

a. Should you buy 180 day Japanese T-bills, or 180 day U.S. T-bills for your $20 million? Calculate your return for each alternative.

b. Which way will short-term capital (currency) flow?

c. What adjustments take place in the foreign exchange market as investors act on this arbitrage opportunity?

11. If you are an English citizen, convinced that the £ will drop substantially within the next six months, explain how you could use the forward market to speculate on your conviction.

12. If you are a U.S. citizen, and you believe a sharp depreciation of the pound is imminent, explain how you could use the forward and spot market to speculate on this belief.

13. If you are a German importer of the American motorcycle and you are trying to decide whether to cover a contract to import Harley-Davidson bikes three months from today, what factors would you take into account in this decision?