1. Although the law of one price predicts that identical goods should cost the same in all nations, transportation costs, taxes and tariffs may prevent this prediction from actually occurring.  
   **True-False-Uncertain: Explain**

2. Assume the initial yen/dollar exchange rate to be 100 yen per dollar. If the U.S. inflation rate is 2 percent and the Japanese inflation rate is 7 percent, the exchange rate should move to 105 yen per dollar according to the Purchasing Power Parity theory.  
   **True-False-Uncertain: Explain**

3. According to the "Big Mac" index, if a Big Mac costs $2.28 in United States and 25.75 krone or in Denmark (equivalent to $4.25 when the krone price is converted into dollars using the current exchange rate), the Danish krone is an undervalued currency.  
   **True-False-Uncertain: Explain**

4. The purchasing power parity theory is used to predict exchange rate movements in the short run.  
   **True-False-Uncertain: Explain**

5. If one yen costs .01 dollars, the purchasing power parity theory predicts that if the United States inflation rate is 4 percent while the Japanese inflation rate is 0 percent, the dollar price of the yen will fall by 4 percent.  
   **True-False-Uncertain: Explain**

6. Assume the initial $/£ exchange rate equals 2.00. If the U.S. inflation rate is 8 percent and the UK inflation rate is 3 percent, then, according to the purchasing power parity theory, the exchange rate should move to $2.10 per pound in one year’s time.  
   **True-False-Uncertain: Explain**