

California Polytechnic State University

Economics 330: International Trade

Fall 2008, Quiz 2

Write your name on the back of this page. Show all your work on the back of this page. Here are some data from today's *Wall Street Journal*

Country/currency	USD		US\$ vs.		Currency	
	USD equiv Wednesday	USD equiv Tuesday	1-day % chg	YTD % chg	per USD Wednesday	Currency per USD Tuesday
Denmark krone	0.1681	0.1694	0.77	16.5	5.9488	5.9032
Euro area euro	1.2526	1.2617	0.72	16.5	0.7983	0.7926
Hungary forint	0.00461	0.00466	1.08	25.2	216.92	214.59
Norway krone	0.1419	0.1414	-0.35	29.7	7.0472	7.0721
Poland zloty	0.3263	0.3298	1.08	24.2	3.0647	3.0321
Romania leu	0.3267	0.3296	0.88	23.8	3.0608	3.034
Russia ruble₹	0.03627	0.0364	0.36	12.2	27.571	27.473
Slovak Rep koruna	0.04116	0.0415	0.83	5.6	24.295	24.096
Sweden krona	0.1226	0.1243	1.39	26.2	8.1566	8.0451
Switzerland franc	0.8246	0.8327	0.98	7	1.2127	1.2009
1-mos forward	0.8249	0.833	0.98	7.2	1.2123	1.2005
3-mos forward	0.8263	0.8344	0.98	7.3	1.2102	1.1985
6-mos forward	0.8283	0.8366	1	7.5	1.2073	1.1953

- A. (2 points) How many Swiss francs does it cost to buy one euro? Do not do the calculation; just set up the formula. Then explain why you set it up that way.

$$\text{SFR/euro} = (\$/\text{euro}) / (\$/\text{SFR}) = 1.2526/0.8246$$

- B. (1 point) Is the Swiss franc expected to appreciate or depreciate against the dollar in the next three months? Explain your answer.

It is expected to appreciate against the dollar because the price of a Swiss franc 3 months forward is $0.8263 > 0.8246$, the current spot price. The forward rate is the best predictor for the future spot rate, and these data say that the dollar is supposed to get weaker. Hence the Swiss franc will get stronger.