

Universität Siegen

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Exam "International Financial Markets"
Summer Semester 2015
(2nd Exam Period)

Solution

Available time: 45 minutes

For your attention:

1. The exam is made up of 7 pages (including this cover page). Please check and see if the exam you are holding is **complete**.
2. For your answers, use the designated spaces. Should these not suffice, use the backside of the pages. Please do **not** use a **pencil**.
3. Additional materials you may use for the exam: a non-programmable calculator.
4. **ATTENTION:** The variables used in this examination represent the same values as in the lecture. If you use variables from the lecture in your answers, you do not need to define them.

Question	1	2	3	4	Sum	Mark
Points achievable	14	7.5	13	10.5	45	
Points achieved						

Problem 1: Economic and Financial Accounts

We look at the "Integrated economic and financial accounts" of the euro area for the 3rd quarter (July –September) of 2013:

- page 3 shows the uses of income as part of the economic accounts
- page 4 shows the liabilities' side of the financial account.

We are interested in the sector "General government".

- a) By which lines of the tables on page 3 and 4 can we find out if the sector "General Government" was a deficit unit or a surplus unit in the 3rd quarter? [4 points]

Page 3:

Page 4:

Solution: Page 3: net lending/net borrowing (2)
Page 4: changes in net financial worth due to transactions (2)

- b) Was the "General Government" a deficit unit or a surplus unit? By what amount? [2 points]

Solution: deficit unit in the amount of 81
(1) (1)

- c) We want to calculate the total change of the liabilities of the "General Government" during the 3rd quarter.

- c₁ What were the liabilities of the "General Government" at the beginning of the 3rd quarter 2013? [2 points]

Solution: 10,884 (2)

- c₂ What were the liabilities of the "General Government" at the end of the 3rd quarter 2013? [2 points]

Solution: 10,727 (2)

- c₃ Did the liabilities increase or decrease? By what amount? [2 points]

Solution: decrease by 157
(1) (1)

- d) In order to get the result mentioned in b), we must complement the result of c₃ by two elements. Please name one of them. [2 points]

Solution: - other changes in liabilities (2)

- transactions in assets (2)

} **2 points maximum**

Uses	Euro area	Households	Non-financial corporations	Financial corporations	General government	Rest of the world
2013 Q3						
External account						
Exports of goods and services						644
Trade balance ¹⁾						-64
Generation of income account						
Gross value added (basic prices)						
Taxes less subsidies on products						
Gross domestic product (market prices)						
Compensation of employees	1,136	116	726	56	238	
Other taxes less subsidies on production	30	9	14	3	4	
Consumption of fixed capital	383	102	218	11	52	
Net operating surplus and mixed income ¹⁾	592	287	271	33	0	
Allocation of primary income account						
Net operating surplus and mixed income						7
Compensation of employees						
Taxes less subsidies on production						
Property income	601	31	240	262	68	104
Interest	318	29	53	168	68	44
Other property income	283	3	187	94	0	60
Net national income ¹⁾	2,013	1,621	121	45	225	
Secondary distribution of income account						
Net national income						
Current taxes on income, wealth, etc.	292	233	49	10	0	2
Social contributions	441	441				1
Social benefits other than social transfers in kind	480	1	18	35	427	1
Other current transfers	195	70	25	48	53	11
Net non-life insurance premiums	45	34	9	1	1	2
Non-life insurance claims	46			46		1
Other	104	35	15	1	52	8
Net disposable income ¹⁾	1,983	1,441	61	49	431	
Use of income account						
Net disposable income						
Final consumption expenditure	1,584	1,386			408	
Individual consumption expenditure	1,697	1,386			311	
Collective consumption expenditure	186				186	
Adjustment for the change in the net equity of households in pension fund reserves	15	0	1	14	0	0
Net saving/current external account ¹⁾	99	70	60	36	-67	-42
Capital account						
Net saving/current external account						
Gross capital formation	440	140	239	9	52	
Gross fixed capital formation	426	138	227	10	52	
Changes in inventories and acquisitions less disposals of valuables	14	2	12	0	0	
Consumption of fixed capital						
Acquisitions less disposals of non-produced non-financial assets	0	-1	0	0	1	0
Capital transfers	39	11	1	1	26	6
Capital taxes	9	8	0	0		0
Other capital transfers	30	3	1	1	26	6
Net lending (+) / net borrowing (-) (from capital account) ¹⁾	46	30	53	45	-81	-46
Statistical discrepancy	0	-8	-8	0	0	0

Liabilities	Euro area	Households	Non-financial corporations	MFIs	Other financial intermediaries	Insurance corporations and pension funds	General government	Rest of the world
2013 Q3								
Opening balance sheet, liabilities								
Total liabilities		6,864	27,286	32,190	17,776	7,595	10,884	16,448
Monetary gold and special drawing rights (SDRs)								
Currency and deposits			33	23,531	35	0	276	2,640
Short-term debt securities			90	602	125	2	676	285
Long-term debt securities			971	4,403	3,310	49	6,971	3,180
Loans		6,159	8,536		4,350	305	2,281	3,372
<i>of which: Long-term</i>		5,809	6,242		2,540	111	2,001	
Shares and other equity		8	13,832	2,495	9,713	498	4	6,330
Quoted shares			3,883	407	259	140	0	
Unquoted shares and other equity		8	9,979	1,231	2,786	357	4	
Mutual fund shares				856	6,668			
Insurance technical reserves		36	351	65	1	6,378	1	
Other accounts payable and financial derivatives		661	3,472	1,094	242	161	674	642
<i>Net financial worth ⁽¹⁾</i>	-1,972	13,099	-9,881	929	322	-64	-6,376	
Financial account, transactions in liabilities								
Total transactions in liabilities		2	63	-604	-107	39	-45	-24
Monetary gold and SDRs								
Currency and deposits			0	-496	-1	0	5	-100
Short-term debt securities			0	-16	-5	0	2	4
Long-term debt securities			32	-84	-9	0	-33	18
Loans		3	-16		-131	-6	-3	-39
<i>of which: Long-term</i>		10	31		-61	-2	-20	
Shares and other equity		0	39	-13	81	0	0	92
Quoted shares			4	2	1	0	0	
Unquoted shares and other equity		0	35	-8	-16	0	0	
Mutual fund shares				-7	96			
Insurance technical reserves		0	1	0	0	43	0	
Other accounts payable and financial derivatives		-1	7	7	-42	2	-17	1
<i>Changes in net financial worth due to transactions ⁽²⁾</i>	46	22	61	33	3	9	-81	-46
Other changes account, liabilities								
Total other changes in liabilities		-2	700	72	32	36	-111	-107
Monetary gold and SDRs								
Currency and deposits			0	-11	0	0	0	-12
Short-term debt securities			0	-3	-1	0	0	-4
Long-term debt securities			1	-27	-12	0	-34	-23
Loans		-4	-18		-133	0	-1	-33
<i>of which: Long-term</i>		-4	-10		-7	0	-1	
Shares and other equity		0	708	124	138	14	0	-41
Quoted shares			342	83	26	8	0	
Unquoted shares and other equity		0	366	44	-12	-7	0	
Mutual fund shares				-3	124			
Insurance technical reserves		0	0	0	0	20	0	
Other accounts payable and financial derivatives		1	9	-11	39	1	-76	6
<i>Other changes in net financial worth ⁽³⁾</i>	-63	170	-347	-15	-47	18	158	87
Closing balance sheet, liabilities								
Total liabilities		6,864	28,049	31,639	17,701	7,669	10,727	16,317
Monetary gold and SDRs								
Currency and deposits			33	23,024	35	0	282	2,529
Short-term debt securities			90	583	119	2	678	285
Long-term debt securities			1,004	4,292	3,290	50	6,904	3,175
Loans		6,158	8,501		4,086	299	2,278	3,299
<i>of which: Long-term</i>		5,815	6,263		2,472	108	2,019	
Shares and other equity		8	14,579	2,605	9,932	512	4	6,381
Quoted shares			4,199	493	285	148	0	
Unquoted shares and other equity		8	10,380	1,266	2,758	363	4	
Mutual fund shares				846	6,889			
Insurance technical reserves		37	352	65	1	6,642	1	
Other accounts payable and financial derivatives		661	3,488	1,090	239	164	581	648
<i>Net financial worth ⁽¹⁾</i>	-1,990	13,290	-10,167	946	278	-37	-6,299	

Source: ECB.

Problem 2: Market of Foreign Exchange

- a) In a system of a flexible exchange rate, the public authorities do not "intervene". What is meant by such an "intervention"? [3.5 points]

Solution:

Purchase and/or sales of foreign currency
(0.5) (0.5) (0.5)

with the intention of manipulating the exchange rate.
(0.5) (1) (0.5)

- b) Next to the so-called exchange function, the forex market performs two other functions in a system of a flexible exchange rate. Please name these functions. [4 points]

Solution:

- matching supply and demand (or: equilibrating mechanism)
(1) (0.5) (0.5)
- pricing function (or: determination of exchange rate)
(2)

Problem 3: International Currency

a) What is an international currency? [4 points]

Solution:

currency that ...

- ... fulfils the functions of money (or: is used) (2)
- ... outside its country of issue (or: its home country) (2)

b) Please name one empirical indicator for the international use of the euro as a medium of exchange. [3 points]

Solution:

- share as invoicing (or: settlement) currency in international transactions (0.5) (2) (0.5)
- share in international trade finance (0.5) (1.5) (1)
- share in foreign exchange trading (0.5) (0.5) (0.5) (1)
- share in foreign exchange market intervention (0.5) (0.5) (0.5) (1)

c) China wants an important international role for its currency (Renminbi).

c₁ Please name and briefly explain one feature of China that facilitates this role. [4 points]

Solution:

- large economic size of the country (or: of its international transactions): (2)
increases use of the RMB (or: its acceptance; or: reduces transaction costs) (2)
- political stability: (2)
increases trust in stability of currency's value (or: in its monetary policy) (2)

c₂ Please name one feature of China that still impedes the international use of the Renminbi. (You do not have to explain this feature.) [2 points]

Solution:

- underdeveloped financial system (or: finan. system not open for foreigners) (2)
- lack of confidence in the value of the RMB over the long term (2)

Problem 4: Euromarket

a) What is a Euromarket? [2.5 points]

Solution:

It trades assets which ...

- ... are denominated in a currency A (1)
- ... but were created outside the country where A is legal tender
(0.5) (0.5) (0.5)

b) Please give two reasons why the Eurodollar market evolved in the 1950s. [4 points]

Solution:

- socialist countries wanted to hold dollars outside the USA (2)
- capital export controls of the USA restricted access to dollar loans (2)
- regulation Q restricted interest payments on dollar deposits in the USA (2)
- no reserve holdings on dollar deposits (or: liabilities) outside the USA (2)
- no insurance deposits on dollar deposits (or: liabilities) outside the USA (2)

c) Please explain why market participants in the Euromarket need a very good reputation. [4 points]

Solution:

- Euromarket transactions are outside the jurisdictions of the currency in which contracts are denominated (2)

(or: are offshore transactions;
or: market participants are less under control of local authorities)
- therefore, market participants are very careful when choosing their counter parties (2)