# INTERNATIONAL FINANCIAL MARKETS 

Normal Period 2015-2016
9/June/2016

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NAME
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You have }120\mathrm{ minutes to complete the exam.
It must be written in English and in ink.
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(3) 1. Identify and explain three components of the bid-ask spread.
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(2) 2. Assume the following hypothetical situation:

- interest rate on pounds sterling is $8 \%$
- interest rate on euros is $3 \%$.

If the euro is selling at a one-year forward premium of 10 percent against the pound, is there an arbitrage opportunity? Explain.
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$(3,5)$ 3. Present the versions of the direct relation between prices and the exchange rate that we saw in class, explain how this relation holds in reality and give possible explanations for departures from this relation.
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(2) 4. What is the "impossible trinity" and how does it relate to the choice of an exchange rate regime?
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(2) 5. What are the two elements of an Early Warning System of financial crises? Give three examples of frequently encountered "leading indicators" of crises.
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(2.5) 6. Define "contagion". Identify and explain the categories of causes of contagion that Dornbusch, Park and Claessens present.
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(2.5) 7. What are the main differences between bitcoins and the other currencies? What are the main factors that determine the bitcoin price formation? (Ciaian et al. 2014 The Economics of bitcoin price formation)
(2.5) 8. What are the three types of limits to the Optimum Currency Areas, according to Mundell? (Mundell 1961 A theory of Optimum Currency Areas)

