In-class review questions:

*Long-run determinants of Exchange Rates.*

1. Tourists from the United States that are pleased to get $1.35 or so Canadian for their US dollars only to find that most purchases in Canada cost _____ are learning a simple lesson in the _____ of exchange rates.
   a. Fill in the blanks.
   b. Justify your answers.

2. If Ukrainian prices hadn’t risen in line with Russia’s market forces would have sucked Ukraine dry of goods and consumer goods as Russians sought cheaper goods than they could get at home.
   a. What is the name of the economic principle that lies behind this process?
   b. How would this result have been different if both areas had their own currencies?

3. Large inflation differentials among the EU-members that have adopted the Euro would be devastating to their domestic economies and would surely wreck the monetary union.
   a. Why would that be so?
   b. Would flexible exchange rates somehow change your conclusions? Explain why.

4. All countries that consistently run lower inflation rates than their trading partners over a long period of time have an upward trend in...
   a. Complete your statement.
   b. Explain your choice of answer by describing the theory that fits this long-run trend.

5. The record has not been good. Our experience with exchange rate depreciation has been that all too often it has led, not to a sustained improvement in our trade competitiveness, but to ...
   a. Complete your statement.
   b. Explain your choice of answer by describing the theory that fits this long-run trend.