1. Check out the article on the back from today’s paper. Based on what you have learned in the course, what’s Schröder’s problem, and what can he do about it? [Note: There would be a recent newspaper article attached to the exam, in this case dealing with a policy conflict between German Chancellor Gerhard Schröder and Wim Duisenberg, head of the European Central Bank.]

2. Carefully explain each of the following terms, and indicate their importance in understanding global macroeconomic relationships:

   a. Covered interest parity.
   
   b. Current account of the balance of payments.
   
   c. Central bank intervention in the foreign exchange market
   
   d. Debt monetization.
   
   e. External reserves.

3. Please indicate whether each of the following statements is true or false, and why.

   a. A sharp, unexpected rise in the US Department of Commerce announcement of producer prices is likely to cause an immediate drop in bond prices.
   
   b. The Ecuador’s link to the US dollar in January 2000 at a rate of 25,000 sucres facilitates the conduct of an active monetary policy by the country’s central bank.
   
   c. Medium-term exchange rate “overshooting” can easily be hedged using financial instruments available in today’s markets.
   
   d. Changes in bank reserve requirements imposed on commercial banks represent the most frequently-used technique of monetary control in North America, Europe and Japan.
   
   e. Current economic conditions represent an official recession.