

International Cooperation

Final Exam (Part 1) Study Guide

Note: Below is a list of study questions for the upcoming Final exam (Monday, June 13). The exam covers Handout_6 and Handout_7, and supplementary notes during class. Please answer the study questions (all of them or as many as you can) as a way of preparing for your final. Most, if not all, of the study questions here will appear in the exam. (Some of them could also appear in a slightly different format than shown here.) Since you don't know which ones will be in the exam, it would be a good idea to answer all of them. Please don't ask me for the answers although you can ask me for clarification of the questions. Also, there could be some other questions on the exam that are not found on this list. The best way to use this study guide is to try to answer all the questions as best as you can on your own and then compare your answers with those of your classmates'. Then *discuss* why your answers are different so that you learn the reason why. Form a study group if you can. –Rudy

(where the practice puzzle is, or go to the website):

http://www.penpacific.com/International_Cooperation/Int_Coop_Puzz_3.html

Instructions: This Part 1 exam is **closed notes**, meaning you are not allowed to use your notes. You may use a dictionary but *only* a dictionary and nothing else. No computers allowed. *No* sharing of dictionary allowed. Bring your own. On the multiple choice questions, circle the correct answer. There is only *one* correct answer in each question.

Handout_6

1. At 80 billion euros, the financial rescue package for Portugal would be
 - a. smaller (on a per capita basis) than the size of a similar package negotiated for Ireland but higher than for Greece
 - b. higher (on a per capita basis) than the size of similar packages negotiated for both Ireland and Greece
 - c. smaller (on a per capita basis) than the size of a similar package negotiated for Greece but higher than for Ireland
 - d. smaller (on a per capita basis) than the size of similar packages negotiated for both Ireland and Greece

2. The agency or agencies that will assess (evaluate) how much Portugal would need in financing and make proposals include
 - a. the European Commission
 - b. the European Central Bank
 - c. the IMF
 - d. all of the above
 - e. only (b) and (c) above

3. What are the the deficit reduction targets that Portugal is committed to make?

4. Preventing contagion is important for members of the euro because if there is contagion (with member countries failing)
 - a. the euro could collapse and be devalued
 - b. the economies of the member countries could suffer
 - c. there could be doubts about the viability of being a euro zone member and it could lead to a breakup (dissolution)
 - d. all of the above
 - e. only (a) and (b) above

5. Under what condition(s) would the interest rate on a bond (yield) go up (increase)?

6. What does it mean when the yield on a bond increases from, say, 10 % to 10.15 %?

7. What is or are the reason(s) why European leaders are in a “difficult position” to come up with a rescue package and austerity conditions for Portugal?

8. What has Spain done to “stay out of danger?”

9. If Mr. Leite, an economic advisor and professor, thinks that Portugal should argue for a better treatment than Greece and Ireland, what would be the reason or reasons?

10. Why would the “sense of punishment” for Portugal’s leaders be higher (or stronger) this time around?

11. If a company or country defaults on its bonds, then
- a. the chance (or likelihood) of issuing another bond next time is close to zero
 - b. the bond issuer’s credibility (trust) with investors would be destroyed
 - c. the bondholders would not be able to get any or all of their capital (investment) back
 - d. all of the above
 - e. (a) and (b) above

12. Defaults on bonds issued by the governments of Greece, Ireland, Portugal and Spain
- a. could make German Chancellor Merkel lose her job so in this sense she has at least a big reason to be generous with bailouts
 - b. could destroy the balance sheets of many European banks loaded down with the sovereign debt of these countries
 - c. could possibly bankrupt shaky German banks because they hold €46.5 billion in Greek, Irish, Portuguese and Spanish bonds
 - d. all of the above
 - e. (b) and (c) above

13. Angel Gurría, secretary-general of the OECD, believes that Spain will be able to see through its current difficulties because of
- a. its labor market reforms (changes)
 - b. its pension reforms
 - c. its banking reforms
 - d. all of the above
 - e. (b) and (c) above

14. If Spain, which is in better shape than Greece, Ireland and Portugal, is not a rock-solid bet to avoid a bailout, the reason or reasons would be what?

15. Indications that Spain has big economic problems ahead include
- a. the high unemployment above 20 % (40 % for younger workers) and the recent increase in jobless claims
 - b. the fast decline (decrease) in real disposable income
 - c. the likelihood that Spanish home-owners could be paying higher monthly mortgage rates because of ECB higher interest rates
 - d. all of the above
 - e. only (a) and (b) above

Handout_7

16. Indications that the Greek economy is currently suffering from severe difficulties include
- a. gross domestic product being predicted to decline by 4 % this year
 - b. cement and steel production this year are both down by substantial amounts
 - c. unemployment rate will rise above 15 % by the end of the year
 - d. all of the above
 - e. only (a) and (b) above

17. What does it mean when many Greeks withdraw or take deposits out of banks?

18. Even if protected by the government in case their banks fail, the Greeks would still want to withdraw their deposits because
- a. the Greeks believe that the economy is so bad that the government would not have the money to refund their deposits
 - b. the Greeks are losing their faith on the ability of their government to refund their deposits in case banks fail
 - c. the Greeks are nervous about the money that their government can raise from taxes because the economy is doing very badly
 - d. all of the above
 - e. (a) and (b) above

19. Subjecting Greece to more cuts and sacrifice in order to justify a second installment of funds from a reluctant Europe may not be right (the remedy violates basic economic principles) because

- a. it is not a good idea to lend money at high interest rates to an insolvent country
- b. it is not a good idea to introduce austerity when there is a recession
- c. the timing of the cuts and sacrifices is bad when the debt is going up and GDP is going down
- d. all of the above
- e. (a) and (b) above

20. Study the words in Puzzle 3. You will see a number of them again in the final exam. Check out the website.