

IB Economics – International Economics

Exam Practice Questions: 3.6 Exchange Rates



IB Economics: www.IBDeconomics.com

3.6 EXCHANGE RATES: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS PAPER 2 EXAMINATION QUESTIONS – INTERNATIONAL ECONOMICS

Paper 2. Duration: 1 hour 30 minutes. Weighting: Higher Level 40%, and Standard Level 30%.

IB Economics exam Paper 2 is divided into Section A and Section B. Section A – International Economics – assesses the IB Economics student's knowledge, analytic and evaluative skills.

Students are expected to demonstrate the following assessment objectives.

Section A

The principal focus is on section 3 of the syllabus – **international economics**.

While the principal focus of the questions is on section 3, it is likely that students will be required to draw on other sections of the syllabus.

The command terms used in each question, or part thereof, indicate the depth required.

Part (a) of each question requires knowledge and understanding. It is subdivided into (i) and (ii). The maximum for each of these is 2 marks, with a combined maximum of **4 marks**.

Part (b) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

Part (c) of each question requires knowledge and understanding, application and analysis, and selection, use and application of a variety of appropriate skills and techniques. The maximum for this part is **4 marks**.

Part (d) of each question requires knowledge and understanding, application and analysis, and synthesis and evaluation. The maximum for this part is **8 marks**.

The section A question is worth a total of **20 marks**.

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Study the extract below and answer the questions that follow.

ITEM 1: BREAKING BUSINESS NEWS

News item appearing in all major English-language newspapers and global media.



Business Tues Nov 15, 2016 6:56am EST

China reasonably comfortable with sharp yuan gains, for now

- sources

NEW YORK



The Chinese Central Bank, Beijing, Peoples Republic of China. November 16, 2017.
REUTERS/WEIFANG ZHUANG

China's central bank is reasonably comfortable with the yuan's sharp gains against a dollar that is broadly weakening, but it could become an issue if gains against other currencies affect its export competitiveness, policy insiders and analysts said. The yuan rose nearly 7 percent against the dollar in 2017 and is up another 3.5 percent this year to its strongest level since August 2015 - when the People's Bank of China (PBOC) stunned markets with a 2 percent devaluation that 'pushed down the value of the yuan'.

Still, China posted strong export growth last year, thanks not only to improving demand globally but efforts to diversify its markets beyond the United States. That push has seen policymakers put a greater emphasis on assessing the yuan's value against a basket of currencies of its trading partners.

"It's obvious that they are pegging (the yuan) directly to the basket and that a revaluation of the currency may be imminent," said a source close to the central bank who declined to be identified due to the sensitivity of the matter.

EDITOR'S CHOICE



A dramatic week ahead



Facebook prohibits private gun sales on its site

PHOTOS OF THE WEEK



Our top photos from the past week. [Full Coverage »](#)

TRENDING ON REUTERS

- IB Students show very elevated levels of stress compared to other students 1
- Sarah Palin and Donald Trump announce birth of new daughter, Freedom Hilton 2
- Queen Margaret College rocked by rampant student lethargy during mocks 3

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QUESTIONS

- a. Define the following terms from the newspaper extract above, concerning the Chinese yuan:
- i. Central bank **[2 marks]**
 - ii. Devaluation **[2 marks]**
- b. Explain **two** possible consequences of an overvalued yuan. **[4 marks]**
- c. Draw an exchange rate diagram and use it to explain one way that the Chinese central bank can use to 'push down the value of the yuan'. **[4 marks]**
- d. Using information in the text and your knowledge of economics, to what extent do you support the view that China should revalue the yuan. **[8 marks]**

Source: www.IBDeconomics.com