**1. *Explain* whether you agree or disagree with the following statement and explain why:**

“Other things equal, a depreciation of the U.S. dollar is bad news for U.S. consumers and good news for U.S. exporters.”

**2. Explain the relation between the following concepts:**

a. The nominal exchange rate and the real exchange rate.

b. Nominal interest rate parity and real interest rate parity.

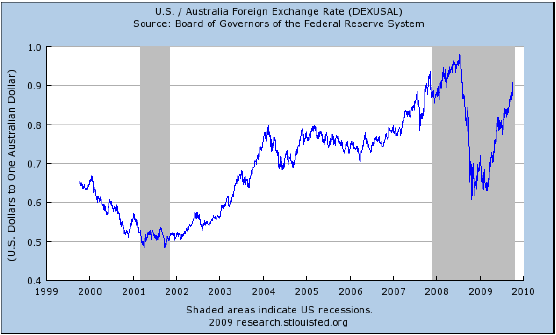
c. Domestic purchasing power and international purchasing power.

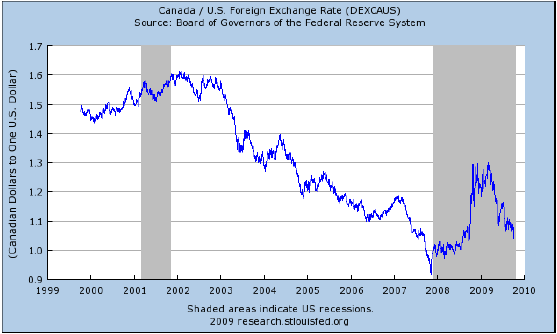
d. Currency appreciation and depreciation.

**3. Assuming that the U.S. dollar is the local currency, answer the following questions *for each* graph below:**

a. Does the graph show the direct or indirect method of quoting the exchange rate?

b. Did the local currency become “stronger” or “weaker” in 2008?

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