**Quiz #13: Foreign Exchange Intervention**

1. a) Show the balance sheet for the People’s Bank of China (PBOC) when the PBOC engages in a sterilized foreign exchange purchase of $1 billion U.S. dollars.

b) Why does the central bank sterilize the purchase of U.S. dollars? What is the effect on the exchange rate?

2. a) In China’s case, which situation did the PBOC find itself in early 2005? Why? Draw the graph with your explanation.

b) List the three problems China faced because of the pegged yuan.