

Econ 102 – Principles of Macroeconomics
Discussion Section Handout #11

Announcement:

There is no homework this week since the chapter 16 will not be covered in the lecture and the exam. Enjoy your econ homework-free week!

Key concepts:

Balance of payments, Current account and financial account, Depreciation and appreciation, Real exchange rate, Demand and supply analysis in the exchange rate market (the factors that shift the curves, the equilibrium)

Examples:

1. After your international job search, you got three offers from three countries which include USA, England and Japan. You have to find which offer provides the highest salary using the following information. Which job offer pays you the most? (Nominal exchange rates: $\text{¥}/\text{\$}=100$, $\text{£}/\text{\$}=0.5$)

	Salary	Price level
Job offer A (USA)	\$100,000 (Dollars)	90
Job offer B (England)	£30,000 (Pounds)	120
Job offer C (Japan)	¥8,000,000 (Yens)	135

2. Use the following information to solve the questions.

$$Y=20$$

$$C=12$$

$$T=3$$

$$G=4$$

$$I=7$$

- What are the net exports of this country?
- Is this country experiencing a net capital inflow or outflow?
- What can the government do in order to make the net export zero?

3. The current exchange rate between Euro and Dollar is 0.5Euro/Dollar. For each event, find out if the exchange rate is appreciated or depreciated. Also answer what would happen to the net export and the net capital flow in USA.

- Growth rate of USA decreases by 5%.
- Domestic inflation is expected to be 2%, while the inflation in EU countries is expected to be 5%.
- Federal reserves of United States decide to buy 1 billion dollars of T-bill.
- Preference for the trip to the Europe increases in United States.