# Mid-term Exam for International Monetary Economics (EE 452)

There are three questions. Please answer all the questions.

Materials and equipment allowance: Calculator

1. Consider the balance of payment of country A between 1996 and 2010 (Table 1).

   a. Discuss balance of goods and services and its components (2 Marks)
   b. Based on the information in the table, please draw the inference on net direct investment position of Country A (i.e. whether Country A always has outward FDI greater than inward FDI). (3 Marks)
   c. Discuss the following statement whether you agree or not and why? (5 Marks)

      "It is likely that Country A would be scrummed into the crisis soon due to the successive balance of payments between 2000 and 2008 and experience currency depreciation."

2. Use the simple model of foreign trade and national income to analyze the following statement (Agree or Disagree and why?) (8 Marks)

"Due to the severe flooding in the last quarter 2011, the government should increase its budget expenditure as well as cut taxes. This is to promote economic growth. The more the injection you make, the faster the economy would go. In addition, such spending and tax cuts would not have any impact on trade balance simply because their impact would be on domestic consumption rather than export and import."

Table 1: Information related to Balance of Payment Account of Country A

| DESCRIPTOR | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| GOODS EXPORTS: F.O.B. | 115769 | 117522 | 127162 | 158049 | 185209 | 196580 | 220696 | 264053 | 284346 | 223981 |
| GOODS IMPORTS: F.O.B | -152856 | -152039 | -161794 | -203205 | -251939 | -281784 | -325318 | -389291 | -412631 | -286813 |
| SERVICES: EXPORTS | 52452.6 | 55650.6 | 60247.2 | 74308.2 | 86077.8 | 94662.6 | 106665 | 128148 | 143497 | 122912 |
| SERVICES: IMPORTS | -33170.6 | -35181.9 | -38712.2 | -47950.6 | -59188.2 | -67128.5 | -78588.2 | -96491.7 | -104763 | -87445.7 |
| INCOME: RECEIPTS | 18903.8 | 20243 | 21536.4 | 27209.4 | 33947.8 | 39445 | 60022.5 | 79614.4 | 79396.6 | 56734.7 |
| INCOME: PAYMENT | -25752.7 | -31508.8 | -33194.4 | -38910.4 | -48986.1 | -60700.8 | -86266.4 | -120986 | -132271 | -98855.1 |
| FINANCIAL ACCOUNT, N.I.E. | 15260.9 | 18168.6 | 17781.8 | 4352.62 | 36964.4 | 73884.8 | 107926 | 138614 | 152192 | 85772.6 |
| PORTFOLIO INVESTMENT ASSETS | -59318.4 | -44991.8 | -29088.6 | -90833 | -39650.8 | -119356 | -11461.8 | -5888.24 | 31401.4 | 1316.29 |
| PORTFOLIO INVESTMENT LIAB., N.I.E. | 58146.4 | 27971.3 | 34104.6 | 44763.2 | 141686 | 172713 | 243890 | 124060 | -26313.2 | 71739 |
| OVERALL BALANCE | -2880.05 | -1341.24 | 3690.1 | -15489.5 | -6411.95 | -1919.62 | 578.21 | 214.87 | 687.5 | 5970.21 |

3. Assume you are an investment banker working in Hong Kong. Your customer (Hong Kong) wants to allocate their endowment worth 0.1 million HK dollar for 3 months. Your have three choices, i.e. Hong Kong, Singapore and Thailand. Interest rates in these three markets are 2, 3 and 4 per cent per annual, respectively. Exchange rate on 28 February 2012 is 7.78 HK$/US$, 1.29 S$/US$ and 30.6 Baht/US$

    a. Assume no exchange rate risk, what is your advice to the customer to maximize their return and why (2 Marks)

    b. Suppose you have insight that Thai Baht is about be depreciated in the next three months whereas there is no sign HK$ and S$ would change. Discuss whether the information above alters your advise in 3.a above and why? (4 Marks).

    c. Assume that Thailand imposes capital control measures to foreign investors. The measure is equals to 1.5 per cent interest rate equivalence. Find the expected exchange rate of Thai baht makes investors indifference in return between Singapore and Thailand (6 Marks).