Exercise 8

International Economics

1. What is the difference between “absolute” and “comparative” advantages? What are the main implications of these two theories? (i.e. what do they suggest?)

2. The table below shows the amount of production that one worker in each country can produce. Assume that each country has 5 workers. **Draw a PPF and show** that both countries will benefit from trade.

	Thailand	Malaysia
Beer	4	1
Wine	1	4

3. What do “current account surplus” and “capital account deficit” represent? What is the “Balance of Payment Identity”?

4. Suppose the current market exchange rate is $0.3 / 1 Baht. Use the foreign exchange market diagram to explain how the Central Bank of Thailand can “devalue” Thai baht to $0.2 / 1 Baht under the fixed exchange rate regime.

5. How does the floating exchange rate regime work? Under such regime, how does each of the following events affect Thai Baht (assumed to be a domestic currency)?
   - The rest of the world imports more from Thailand.
   - More Thai investors invest abroad.
   - Thailand will leave ASEAN (similar to the UK leaving the EU).

6. In the floating exchange rate regime, why might inflation cause a currency to appreciate and depreciate?

7. Suppose an iPhoneX is priced at 400 USD in the US and 300 GBP in the UK. Calculate the PPP exchange rate between USD and GBP.

8. Suppose the nominal exchange rate is 40 THB / 1 GBP. One apple costs 20 THB in Thailand, but costs 1 GBP in the UK. Calculate the real exchange rate.

9. What assumptions are required for the Law of One Price to hold?

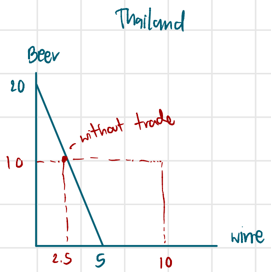
1. What is the difference between “absolute” and “comparative” advantages? What are the main implications of these two theories? (i.e. what do they suggest?)

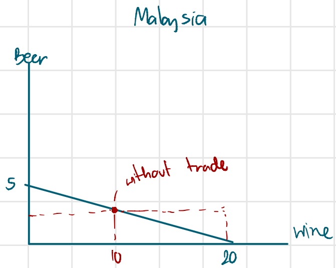
Absolute Advantage : is the advantage of one country when it uses fewer resources to produce a good than the other country does.

Comparative Advantage : is the advantage of one country when that it produces a good at a lower opportunity cost than the other country does.

2. The table below shows the amount of production that <u>one worker</u> in each country can produce. Assume that each country has 5 workers. **<u>Draw a PPF and show</u>** that both countries will benefit from trade.

	Thailand	Malaysia
Beer	4	1
Wine	1	4





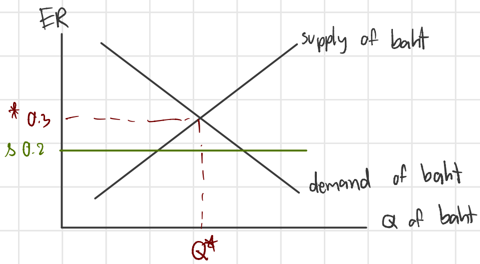
Thailand has absolute advantage in beer while malaysia has advantage in wine
* both country get benefit where they are good at

3. What do “current account surplus” and “capital account deficit” represent? What is the “Balance of Payment Identity”?

current accout surplus : mean we are export morethan import, that make tranfer surplus
capital account dificit : mean flowing out of country, it suggest nation increasing in ownership
when they trade each can enjoy 10 beer & 10 [illegible]

Balance of payment : is a statement of all transection made between agent & rest of the world

4. Suppose the current market exchange rate is \$0.3 / 1 Baht. Use the foreign exchange market diagram to explain how the Central Bank of Thailand can "devalue" Thai baht to \$0.2 / 1 Baht under the fixed exchange rate regime.



The CB has to increase supply for baht. it can sell baht (buy USD) from the foriegn exchange market this will lead to depreciation in Thai baht

5. How does the floating exchange rate regime work? Under such regime, how does each of the following events affect Thai Baht (assumed to be a domestic currency)?
- The rest of the world imports more from Thailand. Appreciation in Thai Baht
- More Thai investors invest abroad. Depreciation in thai Baht
- Thailand will leave ASEAN (similar to the UK leaving the EU). Not effect

6. In the floating exchange rate regime, why might inflation cause a currency to appreciate and depreciate?

Because Fisher equation when inflation ↑ → i ↑. it attrat foriegn investors so, they have more demand for thai baht. it cause appreciation in thai baht

7. Suppose an iPhoneX is priced at 400 USD in the US and 300 GBP in the UK. Calculate the PPP exchange rate between USD and GBP.

400 \$ = 300 £

$\$ \frac{400}{300} = 1$ £

\$ 1.33 = 1 £ (PPP)

\$? = 1 £ (actual exchange rate)

8. Suppose the nominal exchange rate is 40 THB / 1 GBP. One apple costs 20 THB in Thailand, but costs 1 GBP in the UK. Calculate the real exchange rate.

$$RER = MER\ (THB/GBP) \times (P_{GBP}/P_{THB})$$
$$= (40/1) \times (1/20)$$
$$= 2$$

RER implies that in term of purchasing power, ppl are willing to exchange 2 Thai apple with w/ 1 GBP apple

9. What assumptions are required for the Law of One Price to hold?

if cause of transportation is small, a price of some goods in different countries should be roughly the same