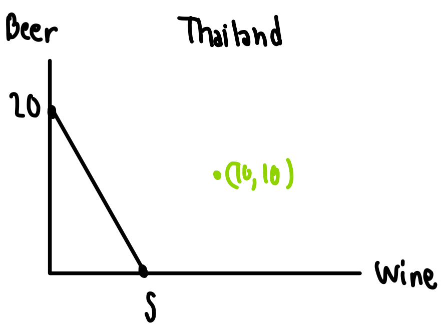
1. What is the difference between "absolute" and "comparative" advantages? What are the main implications of these two theories? (i.e. what do they suggest?)

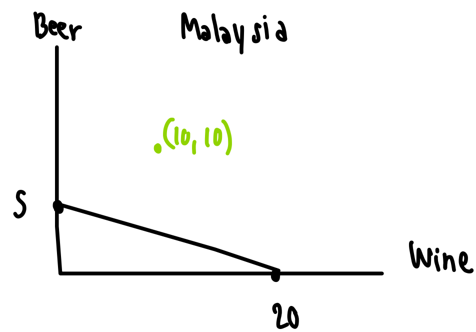
Absolute Advantage is when one country uses fewer resources to produce a good than another one. For example, 1 arce of land can produce 10 units of wheat in Thailand but 5 units in Vietnam meaning than Thailand has AA in wheat production

Comparative Advantage is when one country produces a good at lower oppurtunity cost. For example, when Thailand produces 1 unit of wheat will lose 5 units of candy, but when Vietnam produces 1 unit of wheat will lowe 3 units of candy meaning that Vietnam has lower oppurtunity cost in wheat production.

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 20	1 5
Wine	1 5	4 20





- Five labours In Thailand can produce 20 units of beer.
- " in Malaysia can produce 20 units of wine.

∴ Thailand and Malaysia can trade. Each country can have 10 units of both wine and beer.

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

Current account surplus represents that we have exports more than imports

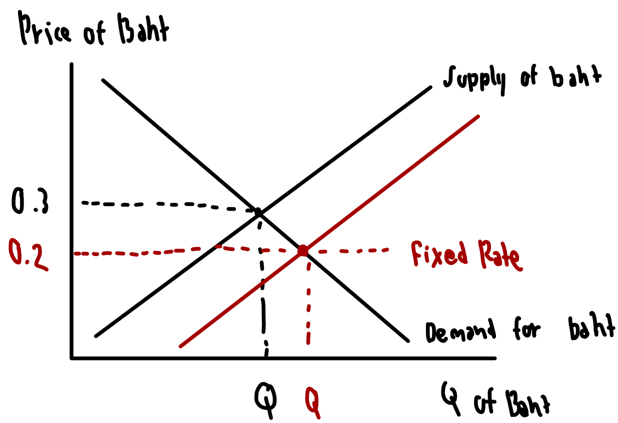
Capital account deflicit means that the nation is increasing its ownership of foreign assets.

Balance of payment Identity is

$CA + KA = 0$

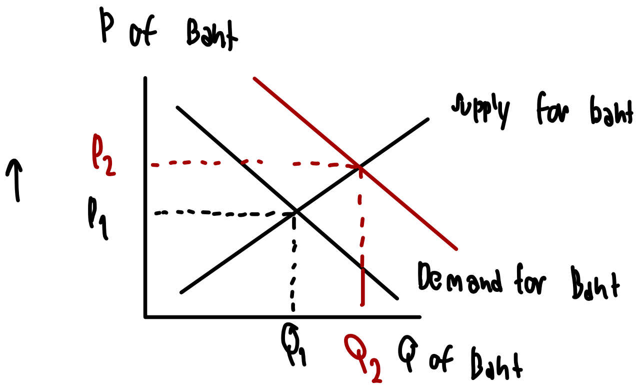
if we have CA surplus, we'll have KA deflicit

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.

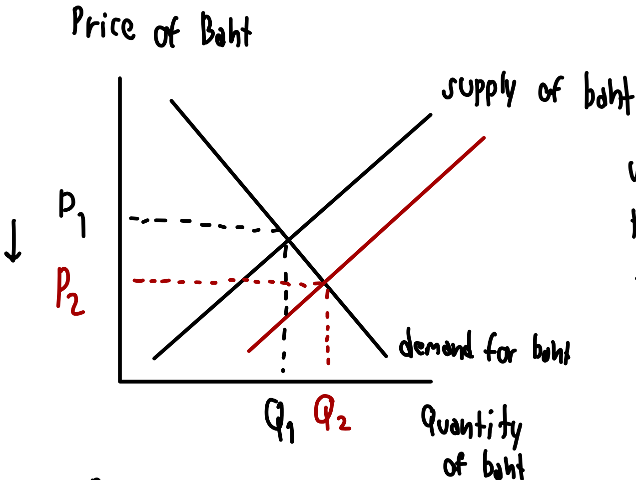


Central bank of Thailand can devalue Thai baht by increasing supply of baht which means that they will sell Thai baht. Thai baht will also be depreciated.

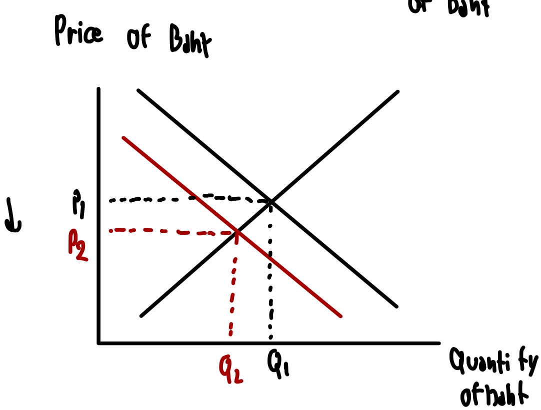
5. How does the floating exchange rate regime work? Under such regime, how do each of the following events affect Thai Baht (assumed to be a domestic currency)?
   - The rest of the world imports more from Thailand.
   - More Thai investors invest abroad.
   - Thailand will leave ASEAN (similar to the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



When the rest of the world imports more from Thai, for example, in US will supply more USD that means they demand more for THB. And that can cause THB to be Appreciated.



When Thai investors want to invest aborad, that means they want to supply for THB, so supply for THB will shift to the right leading to have THB depreciation



Thailand leaving Asian can cause demand shift to the left because we have fewer investors. In this case, we'll have THB depreciation.

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

When we have high inflation, it will cause us to spend more money, the supply will be excessive and shift to the right leading to have THB Depreciation, and vice versa.

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.

Since, PPP exchange rate has the law of one price, if the costs of transportation are small, the price of the same good in different countries should be roughly the same
So, PPP exchange rate between USD and GBP

400 USD : 300 GBP

1.33 USD : 1 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.

$$\frac{40/1 \times 1}{20} = 2$$

that means you're willing 2 apples to get 1 apple in UK