Problem sets 3: Foreign exchange market

EE312: Intermediate macroeconomics

Semester 2/2018

Instructor: Dr. Kittichai Saelee

Due on Feb 19th ,2018 at the BE office. (before 3 pm)

Part 1: (Graded by TA) Use the exchange rate theorem and analyze the impact of the following developments on the market exchange rate, i.e. the value of Thai baht against the USD. (When you answer each question, use the diagram that we discussed in class, and provide some economic intuitions that support your narrative answer.)

1.1) Market expects that the Bank of Thailand will raise its policy rate soon.

1.2) Productivity growth in Thailand has increased rapidly.

1.3) Market expects that the financial trouble in the Euro area will be resolved soon.

1.4) Rumor about the trouble in Thai banking sectors has become materialized.

Part 2: (Graded by Instructor) Use the answer given to question "1.4" in part 1, analyze the appropriate actions required by the central bank if it were to resist the movement of the exchange rate. Also, discuss what happens to the balance of payments and the level of foreign reserve. What are the sided effects of exchange rate intervention on domestic economy? How to prevent the sided effects?