Sarisa Yimprasert
6404641018

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?)

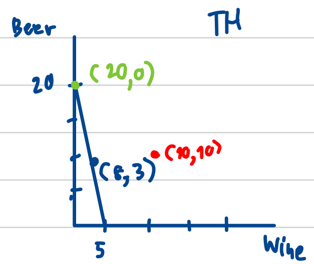
absolute advantage ÷ The country uses fewer resources to produce goods than the other country does.

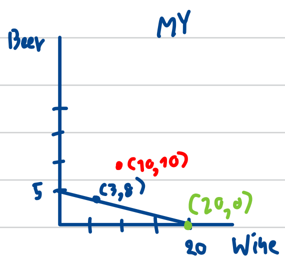
comparative advantage ÷ The country produce at a lower oppotunity cost than the other country does.

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 20	1 5
Wine	1 5	4 20

= Absolute Advantage





w/o trade	TH	MY
B	8	3
W	3	8

w/ specialization	TH		MY
B	20	10 →	0
W	0	← 10	20

w/ specialization + free trade

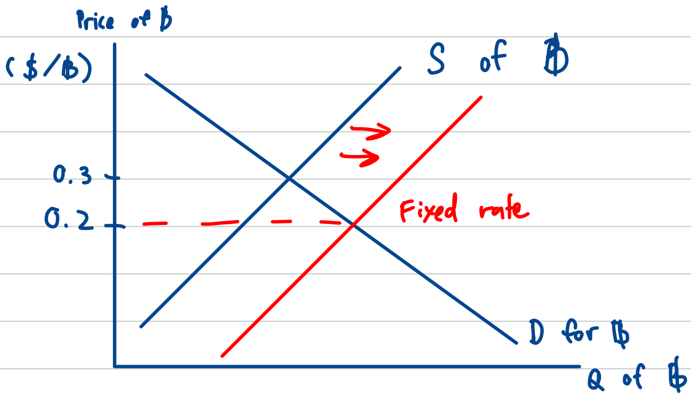
	TH	MY
B	10	10
W	10	10

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

current account surplus when $x > M$

capital account deficit when the nation is increasing its ownership of foreign assets.

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 can sell Baht and buy USD from the foreigner exchange market.

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).

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.

PPP exchange rate is 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.

$$RER\,(THB/GBP) = NER\,(THB/GBP) \times (P_{UK} / P_{TH})$$
$$= (40/1) \times (1/20)$$
$$= 2$$

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

The price of the same goods in different countries s should be roughly the same.