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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 ad. refers to the ability to produce more or better G&S than an somebody else.
Comparative ad refers to the ability to produce G&S at a lower opportunity cost, not necessarily at a greater volume or quality.

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.

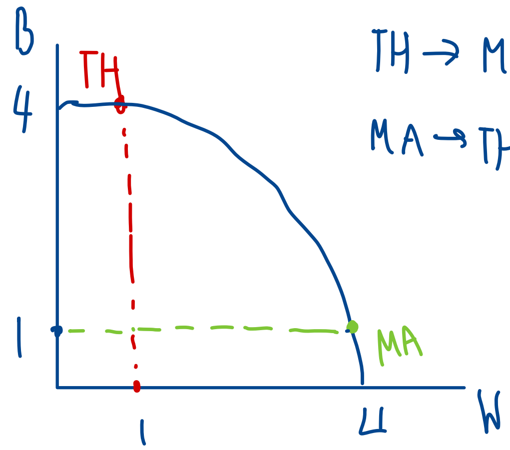
	Thailand	Malaysia
Beer (B)	4	1
Wine (W)	1	4

Th : $\frac{4}{1}$ = 4 Beer / Wine

Ma = $\frac{1}{4}$: 1 Beer / wine

Th : $\frac{1}{4}$: 1 wine / Beer

Ma : $\frac{4}{1}$: 4 wine / Beer.



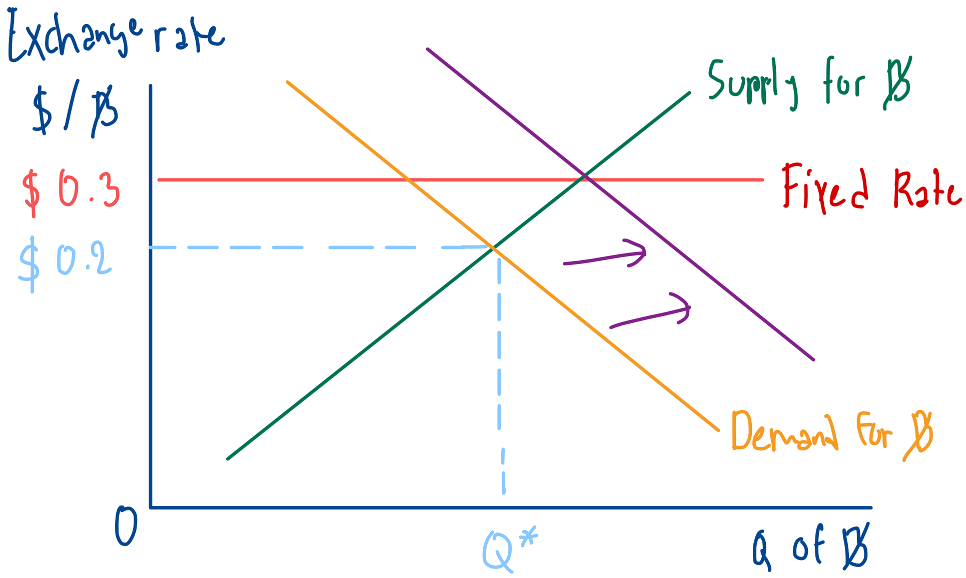
TH → MA = 3 Beer

MA → TH : 3 wine

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

- Current account surplus refers to positive current account balances, meaning that a country has more X than M of G&S. Low domestic demand or may be the result of a drop in M due to recession.
- Capital account deflict records the net flows of investment transaction into an economy. It is one of 2 primary components of the balance of payments, the other being the current account.
- BPI - consits of those 2 components : Current and capita account. The current account reflects a country's net income, while the capital reflects the net change in ownership of national 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.



- The CB can increase Demand for ฿
- It can buy ฿ (and Sell $) from foreign exchance market. This will lead to appereciation in THB

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).

- More Demand of The rest of the world 'currency = more supply of ฿ (฿ depreciates while The rest of the world 'currency appreciates.)
- More supply of ฿ (฿ depreciates while others appreciates)
- Will have higher interest rate, higher attracts from others countries. more Demand for ฿, ฿ appreciates while others 'currency depriciates

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

- Additionally, inflation can lead to higher input costs for X which makes a nation's X less competitive in Global markets, which will widen the trade deflict and cause the currency to 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.

$$\text{PPP formula} : \frac{\text{Cost of good X in currency 1}}{\text{Cost of good X in currency 2}}$$

$$= \frac{400}{300} = 1.33\ldots \; ; \; 1 \text{ GBP} = 1.33 \$$$

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.

- $RER\ (THB / GBP) = NER(THB / GBP) \times (P_{GBP} / P_{TH})$

$$= (40/1) \times (2/40) = 2$$

$\therefore$ 2 THB apple with 1 GBP apple.

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

- free competition in the markets, the absence of trade restrictions, and price flexibility.