Takig quiz 48 (52 copies)

STUDENT ID_______________

Quiz 3: Forex market

Semester 2/2018

Date: Feb, 22th 2018.

Question 1 (15 points) Suppose the balance of payments is now equal to zero at a given level of equilibrium exchange rate (e*). Both Euro and Japanese economy are expected to fully recover from the recession, and regain its long-term growth momentum. Answer the following questions.

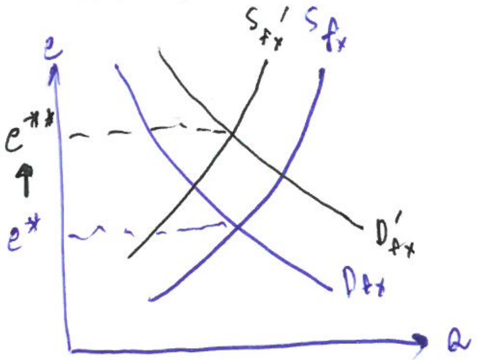
Y↑

1.1 (8 points) Under the flexible exchange rate regime, do you think what would happen to the value of Thai baht? Provide some economic intuitions and link your analysis to the demand and supply diagram.

1.2 (7 points) Discuss about the intervention process required if the authority would want to keep the exchange rate at the original level (e*). Link your analysis to the demand and supply diagram

1)

[THB depreciate]



Possible explanations

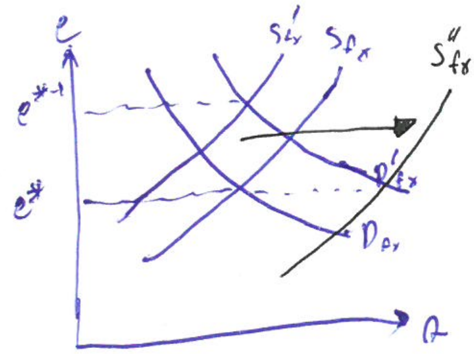
① θ↓ (lower risk for Euro/Japan)

↳ D_{fx} increase

↳ S_{fx} decrease

② according to PPP, when economy is expected to grow, the price of that economy also expected to reduce and exchange rate is expected to appreciate: e^{ex}↑ then people react as expectation. they buy more fx (or) and sell less fx to speculate the currency.

2)



Central Bank need to sell more fx currencies to increase the supply of fx and fill up the excess fx demand at e^*.