Assignment 4 EE312 (Semester 2/2019)

1. Due March 1st, 2020 (before 11.30 pm. Submit your work on the BE Moodle.)
2. For question 1 and question 3, even-numbered groups are assigned to do even-numbered sub questions.
3. For question 2, you must attempt all.

Question 1: Use the demand and supply model. Predict the directional change of the exchange rate (baht/USD) under the following situations.

1.1 The bank of Thailand cuts its policy rate.

1.2 Market expects that US dollar will be appreciating in the future.

1.3 The US government has imposed a trade sanction on Thai's agricultural product exported to the US market.

1.4 A positive improvement in production technology of Thailand causes a decrease in domestic price.

Question 2 Suppose that S&P, an international credit-rating agency, has decided to *downgrade* the credit rating of Thai economy. Answer the following problems.

a) Under the flexible exchange rate, how does the upgrade of credit rating affect the value of Thai currency?

b) If the authority wishes to resist the movement of the exchange rate (baht/USD), what does the authority need to do? Explain about the implementation process under the forex market intervention.

c) Discuss about the unintended impact of the forex market intervention on the domestic financial system. If the authority wishes to limit the sided effect of the forex market intervention, what does the authority need to do?

Question 3 Under the Mundell-Fleming model, analyze the impact of the following situations on output, real interest rate, exchanger rate, unemployment rate. Analyze the impact under both fixed and flexible exchange rate system

3.1) A reduction of money supply.

3.2) An increase in government spending.

3.3) Thai government has imposed a tariff on imported products.

3.4) Thai's credit rating condition has been improved.