

Exercise 8

International Economics

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?)
2. The table below shows the amount of production that one worker in each country can produce. Assume that each country has 5 workers. **Draw a PPF and show** that both countries will benefit from trade.

	Thailand	Malaysia
Beer	4	1
Wine	1	4

3. What do “current account surplus” and “capital account deficit” represent? What is the “Balance of Payment Identity”?
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.
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).
6. In the floating exchange rate regime, why might inflation cause a currency to appreciate and 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.
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.
9. What assumptions are required for the Law of One Price to hold?

1. Absolute Advantage is the advantage of one country when it uses fewer resources to produce a goods than others.

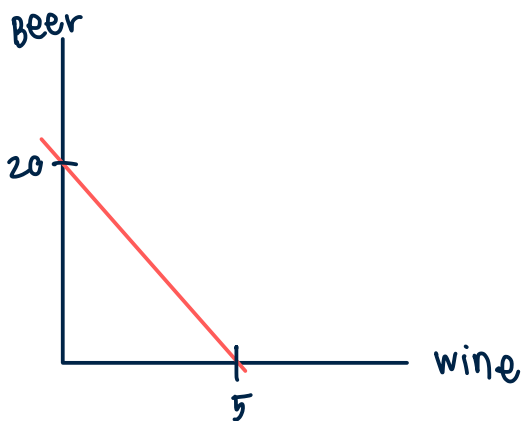
Comparative Advantage is the advantage of one country when produces a good at lower opportunity cost than others.

2.

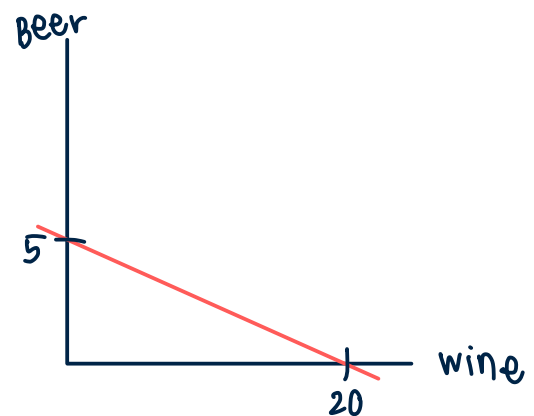
	Thailand	Malaysia
Beer	$4 \times 5 = 20$	$1 \times 5 = 5$
Wine	$1 \times 5 = 5$	$4 \times 5 = 20$

Before.

Thailand's PPF



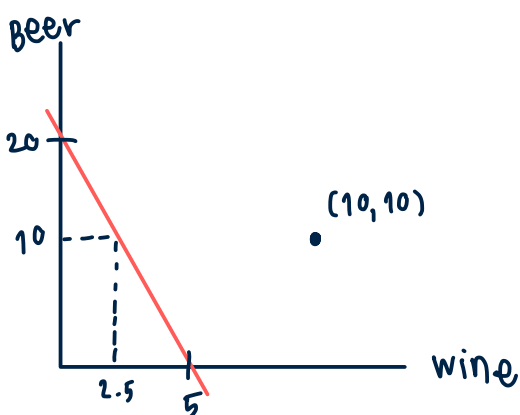
Malaysia's PPF



After.

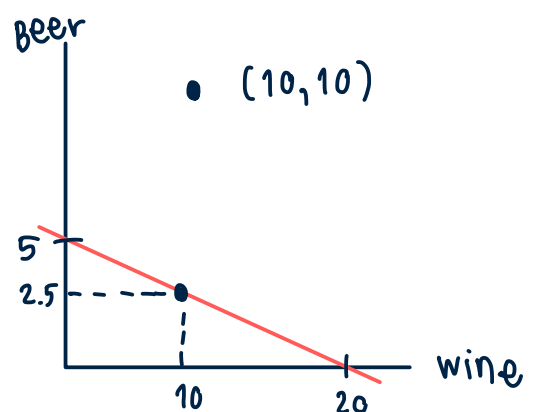
Thailand's PPF

Thailand $\xrightarrow{10 \text{ beer}}$ Malaysia



Malaysia's PPF

Malaysia $\xrightarrow{10 \text{ wine}}$ Thailand



3. - current account surplus is flowing money into the country.
 - current account deficit is flowing money out of the country.
 - Balance of Payment Identify is a statement of all transation made between agents in one country and the rest of the world over defined period of time.
4. The central bank will buy Thai baht and sale us dollars. This will lead to appreciation in THB because Thai Baht is lower in the exchange market.
5. 5.1) The rest of the world demand Thai Baht and THB is appreciate.
 5.2) Thai investors supply THB and THB is depreciate
 5.3) It makes falling of Thai economy so the abroad investors don't want to invest in Thailand. This is the reason why abroad supply THB and THB is depreciate.
6. In floating exchange rate regime, when the interest rate is increasing the investors will invest for high return. This is cause of appreciate but the interest rate is low which make investors don't invest in the country so it happen depreciate.
7. PPP exchange rate between USD and GBP = $\frac{400}{300} = \frac{4}{3} *$
8. real exchange rate (THB / GBP) = $\frac{40 \text{ THB}}{\text{GBP}} \times \frac{1 \text{ GBP}}{20 \text{ THB}} = 2 *$
9. The price of same goods indifferent countries should be roughly the same.