Department of Economics
University of California, Berkeley

Spring 2005
Econ 182

Economics 182-INTERNATIONAL MONETARY ECONOMICS
Problem Set VI

Due in class on Thursday, May 5 (in one week).
To be handed directly to your GSI.

1. *(International diversification)* Return to the example in Chapter 21 of the two countries that produce random amounts of kiwi fruit and can trade claims on that fruit. Suppose the two countries also produce raspberries that spoil if shipped between countries, and that therefore are nontradable. How would this affect the ratio of international asset trade to GNP for Home and Foreign?

2. *(Measuring financial integration)* Sometimes it is claimed that the international equality of *real* interest rates is the most accurate barometer of international financial-market integration. Do you agree?

3. *(Exchange rates and net foreign assets)* Between 1993 and 2003, Canada erased a net foreign debt equal to over 40 percent of its GDP. You might guess that the country ran very big current account surpluses over the decade to accomplish that feat. Go to the data and see if that guess is correct. If not, what happened? [Hint: Look at the Canadian dollar's exchange rate against foreign currencies.]

4. *(Fixed exchange rates again)* Suppose we have a world of three countries, Home, Foreign, and Truly Weird. The exchange rate between the currencies of Foreign and Truly Weird floats. One day your chief economic adviser (you are president of Home) suggests it would be a good idea to fix your currency's exchange rates against both the Foreign and Truly Weird currencies. Why should you fire your adviser immediately?

5. *(Testing per capita income convergence)* Early studies of the economic convergence hypothesis, looking at data for a group of *currently* industrialized countries, found that those which were relatively poor a century ago subsequently grew more quickly. Is it valid to infer from this finding that the convergence hypothesis is valid?