INTERNATIONAL ECONOMICS
HOMEWORK 6
20/12/2013

1. You graduate from Bielefeld University and have two job offers: one in Germany, and the other in Cheltenham in the UK. The former pays *aw* Euros and the latter *st* British pounds. Define purchasing power parity and explain how you would use it or deviations thereof to evaluate these job offers.

2. In December 19/2012 according to the Wall Street Market data (http://quotes.wsj.com/EURUSD/fx-interactive-chart), the exchange rate quoted in American terms was $1.32 per Euro and on the 18/12/2013 it was $1.38 per Euro. For purposes of this exercise suppose that the dollar interest rate is 8% per year, while the euro is 5% per year. What is the rate of return on a euro deposit measured in terms of Dollars. Given a choice between making a $1 deposit and €1deposit, which of these two offers a higher rate of return? Is the interest parity condition satisfied?

3. Consider the following relationship between savings and investments of a country, $S^P + S^G = I + CA$, (see page 332 and 333 of the text book International Economics, by Krugman et, al texbook, ninth edition). Using the data provided by world bank (http://data.worldbank.org/indicator/), on gross savings, current account balance, government expenditures, consumer (household) expenditures and tax revenue, find the private and government savings to satisfy the equality above. Perform the calculations, for Belgium, Agentina, Botswana, Germany for the year 2012.