

## Hand-out weeks 6/7

### **This week:**

6. Intro to monetary international economics
  - a) national income accounting
  - b) balance of payments
  - c) exchange rate
  - d) purchasing power and interest parities
7. Monetary approach to the exchange rate

**Readings:** Krugman&Obstfeld, chpts 12, 13, and 7 (int'l borrowing and lending).

### **Practice problems:**

1. Derive the accounting identity between private and government saving, investment, and the current account. Consider each term in turn and think about when it will be positive/negative.
2. K&O, problems 12.3.–6.
3. Find the bilateral exchange rates of three countries. Calculate whether combining two of them gives you the third.
4. K&O, problem 13.5.