

## 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

**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. Pick a commodity (big mac doesn't count), find its price in at least two countries, and calculate the exchange rate implied by absolute PPP. How does it compare to the actual exchange rate? Which currency seems to be over/undervalued?
5. K&O, problem 13.5.