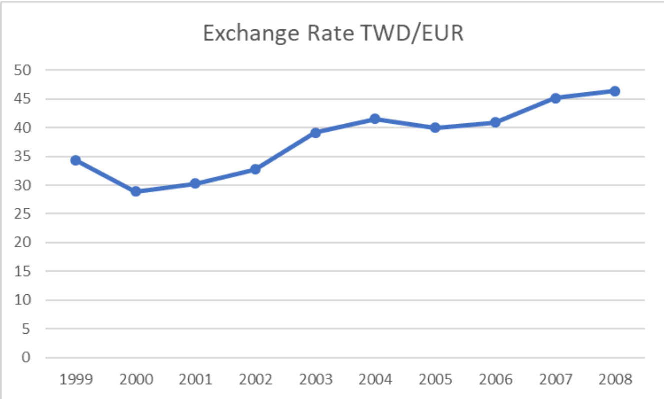
Tutorium International Economics and Trade

Session 1

1) How did the exchange rate develop over the years? Did the New Taiwandollar become stronger?



2) What is the real exchange rate, the effective exchange rate and the purchasing power parity exchange rate?

3) Name two effects that could result from a real depreciation of the exchange rate.

4) The purchasing power parity exchange rate can only be seen as appropriate indicator in the long term. Why can it nevertheless also be an indicator for medium-term decisions?

5) A specific software costs 140 US-Dollar in the United States and 100 Euro in Euroland. Calculate the exchange rate that implies purchasing power parity between both countries

6) a) If the Price of a Big Mac in the Euro area is €2.92, and the Price of a Big Mac in the United States is $3.06, what is the implied PPP?
b) Assume that the actual exchange rate is $1,2260/€. Is the Euro overvalued or undervalued based on the implied PPP? By how much?

7) What are basic assumptions of the absolute PPP?

8) If the price level in both countries is 100 in t and if it raises to 104 abroad (US) and 102 at home (Euroland) in t+1, how does the exchange rate of the domestic currency change from 1,000 $/€?

9) An US company has 1.000.000 $ available for investment for the next 180 days. After this period the money is needed. They have the following options: They could invest the money at a domestic bank for a interest rate of 8% per annum for the period of 180 days. They could exchange the money to Japanese Yen to an exchange rate of 106Y/$. The interest rate at the Yenmarket is currently at 4% per annum. Moreover, in the forward market for 180 days the Yen is traded at F_{180} = 103,50Y/$. Is there arbitrage potential? Show the potential by calculating the necessary steps.

Tutor: Marcel Rother