

Worksheet 1

$$5) \quad \left. \begin{array}{ll} 140 \$ & \text{US} \\ 100 € & \text{Euroland} \end{array} \right\} \quad \frac{140 \$}{100 €} = 1,40 \frac{\$}{€}$$

$$6) \quad a) \quad \left. \begin{array}{ll} \text{Big Mac} & 3,06 \$ \\ & 2,92 € \end{array} \right\} \quad \frac{3,06 \$}{2,92 €} = \underline{\underline{1,0479 \frac{\$}{€}}}$$

PPP-Exchange
Rate

$$b) \quad \text{PPP-Exchange Rate} \approx 1,05 \frac{\$}{€}$$

We assume that this is the true value of the currencies. However, right now the actual exchange rate is $1,2260 \frac{\$}{€}$. That means we receive more \$ for 1 € than calculated before.
 $\Rightarrow$ Actual exchange rate overvalues the Euro

$$\frac{(1,2260 - 1,0479)}{1,0479} = 16,98\% \approx 17\%$$

$$\left(\frac{(1,2260 - 1,0479)}{1,2260} = 14,53\% \right) \quad \frac{1,2260}{1,0479} - 1 = \uparrow$$

Base is not the PPP Exchange Rate

7) - law of one price on the world market

- no transaction costs in international trade
(for example tariffs, transport costs...)

- non-tradeable goods have no influence on the price level

- International capital flows and their effects

on the exchange rate are neglected

$$8) \frac{104 \$}{102 \text{ €}} = 1,0196 \frac{\$}{\text{€}} \text{ in } t+1$$

$$1 \frac{\$}{\text{€}} \text{ in } t, \text{ so change: } \frac{1,0196 \frac{\$}{\text{€}}}{1 \frac{\$}{\text{€}}} - 1 = 1,96\%$$

