

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.