

Homework 9

Eco 10350, Prin of Macro, Kevin R Foster, Colin Powell School at CCNY

Due 8am Friday April 19

(I think of the deadline as being midnight somewhere on the planet after class, operationalized as 8am EST in NYC on day after)

Each student should submit a separate assignment, even if it is an identical computer file to the rest of your study group. When submitting assignments, please include your name and the assignment number as part of the filename. Please write the names of your study group members at the beginning of your homework.

1. What are the names of the people currently in your study group?
2. In the OpenStax textbook, please answer 16.23, 16.25, 17.53.
3. Consider a foreign economy with current exchange rate of 100 units of currency per 1 USD. Investors can buy a US bond paying 3% for a year or can buy a foreign bond (with equivalent risk) paying 5% for a year.
 - a. What exchange rate in a year's time would make investors indifferent between investing in the US or foreign country?
 - b. Suddenly there is news that the foreign country's inflation rate will be 2% higher. What exchange rate, one year ahead, now makes investors indifferent?
4. Currently the exchange rate for UK pound is 0.86 to 1 euro (0.86£/€). Consider a company in UK that sources all its material in the UK but sells to Germany. Currently its materials cost £100, then it adds 20% markup, and sells in euro.
 - a. What is its target € price?
 - b. As the firm tries to figure what effect a hard Brexit might have, what would be their target price if the exchange rate goes to 0.75£/€? If it were 0.90£/€?