

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Fall 2016

PROBLEM SET 3
(Due November 29)

The following questions are short answer. 25 points each.

1. So, Trump won the election. Since the election, the US dollar has appreciated, and the US stock market and interest rates have risen. Was Trump's election a shock to the DD curve or the AA curve? Illustrate your answer with a graph. Given that Canada has a floating exchange rate against the US dollar, is this good news or bad news for Canada? Again, illustrate your answer with a graph.
2. Read the blog post by Brad Setser entitled "China, Manipulation, Day One, the 1988 Trade Act, and the Bennet Amendment" (which is linked on the course webpage). According to Setser, should the new Trump administration accuse China of being a "currency manipulator"? Why or why not? (Hint: What has been the nature of China's recent foreign exchange market intervention?)