

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Spring 2017

PROBLEM SET 3
(Due April 3)

The following questions are short answer. 25 points each.

1. Read the article by Mankiw entitled “The Trilemma of International Finance”, which is posted on the class website. According to Mankiw, what is the trilemma of international finance? Use a triangle to illustrate this trilemma (see class lecture slides). Provide an example from the current international finance system for each point of the triangle. The USA often recommends that other countries follow its lead, and adopt flexible exchange rates. According to Mankiw, is this always good advice?
2. The USA recently began a process of monetary tightening (ie, higher interest rates). Use the DD-AA model to compare and contrast the effects of this policy on Canada and China. (Remember, the C\$ floats against the US dollar, while for the purposes of this question you can assume the RMB is fixed against the dollar).