

SIMON FRASER UNIVERSITY  
Department of Economics

Econ 345  
International Finance

Prof. Kasa  
Spring 2022

PROBLEM SET 1  
(Due February 11)

1. (25 points). Suppose the 12-month forward price of the yen in terms of dollars is .02 dollars per yen. Suppose the spot price of the yen in terms of dollars is .019. Next, suppose that currently the annual interest rate on dollar deposits is 2%, while the interest rate on a comparable yen deposit is 1%. There are no transactions costs. Is there an arbitrage opportunity here? If so, explain exactly how you would take advantage of this situation to make riskless profits.
2. (25 points). Read the article entitled “The Trilemma of International Finance”, by Mankiw, which is posted on the class webpage. According to this article, what is the Trilemma of International Finance? Provide examples of countries that have chosen different policy combinations of the trilemma triangle.