SIMON FRASER UNIVERSITY
Department of Economics

Econ 345 Prof. Kasa
International Finance Fall 2023

PROBLEM SET 1
(Due October 16)

1. (25 points). Suppose the 12-month forward price of the euro in terms of dollars is 1.07 dollars per euro. Suppose the spot price of of the euro in terms of dollars is 1.10. Next, suppose that currently the annual interest rate on dollar deposits is 4%, while the interest rate on a comparable euro deposit is 5%. 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 "It's Been a Privilege", fromn *The Economist*, which is posted on the class webpage. According to this article, how has the US dollar's role as international reserve currency contributed to the persistennce of US current account deficits? Would imposing tariffs (i.e., a tax on imports) help reduce the deficit?