

SIMON FRASER UNIVERSITY  
Department of Economics

Econ 345  
International Finance

Prof. Kasa  
Fall 2023

PROBLEM SET 2  
(Due November 20)

1. (25 points). Some people argue that the USA is at the mercy of China, because the USA owes China so much money. Do you agree? Why or why not? (Hint 1: Take a look at the Krugman article entitled “Taking on China”, which is posted on the class webpage. Hint 2: Which currency is the debt denominated in?)
2. (25 points). The US Financial Crisis of 2008 led to a recession in Canada as well. Some people argued that it was because of increased financial market risk, which shifted Canada’s AA curve left. Others argued that it was because the demand for Canada’s exports decreased, which shifted the DD curve to the left. Explain how you could use information from the foreign exchange market to distinguish these two hypotheses. Use a graph to illustrate your answer.