SIMON FRASER UNIVERSITY
Department of Economics

Econ 345 | Prof. Kasa
International Finance | Spring 2024

PROBLEM SET 1
(Due February 9)

1. (25 points). Suppose the 12-month forward price of the US dollar in terms of the Indian rupee is 82 rupees per dollar. Suppose the spot price of the dollar in terms of rupees is 80. Next, suppose that currently the annual interest rate on dollar deposits is 4%, while the interest rate on a comparable rupee 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 "Birth Pains", from *The Economist*, which is posted on the class webpage. According to this article, why is there a tension between borrowers and lenders, and how has the international financial system resolved this tension in the past? According to this article, what was the connection between rapid growth in China and India and the 2008-09 Global Financial Crisis? According to this article, what might the future of the international financial system look like? Why?