

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Fall 2025

PROBLEM SET 2
(Due December 2)

1. (25 points). When Trump became president in January, one of the first things he did was to propose that Canada join the USA as the 51st state. This is *very* unlikely to ever happen. However, for this question, let's suppose it did. One obvious consequence is that Canada would need to ditch the Loonie and start using the US dollar instead. Based on the material discussed in class (not what ChatGPT says!), do you think adopting the US dollar would be good or bad for Canada? Would output be more or less stable? How would it change the way US monetary and fiscal policies get transmitted to Canada? Do you think Canada is part of an 'Optimum Currency Area' as defined by Mundell?
2. (25 points). Recently, as Argentina's elections were approaching, there was speculative pressure against the Argentine peso. In response, the Trump administration announced a \$20 billion bailout, in an effort to support the peso. (Technically, it was a contingent bailout, ie, a swap line, which hasn't been drawn on yet, given the outcome of the election). Based on our discussion of 1st vs. 2nd generation currency crisis theories, do you think Trump's bailout plan was a good idea or a bad idea? What does the answer depend on? (Ignore the politics here, and just focus on economics).