

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Fall 2016

PROBLEM SET 1 - Due October 11

1. (25 points). Read the article from *The Economist* entitled “Two Out of Three Ain’t Bad”, which is posted on the class website. According to this article, what is the open-economy ‘policy trilemma’? Provide examples of countries that have chosen each corner of the trilemma triangle. Near the end of the article, it discusses recent research by Helene Rey, from the London Business School. In what sense does her work suggest that in the modern world, the trilemma might actually be just a ‘dilemma’ (i.e., countries really only have one choice)?
2. (25 points). Suppose Donald Trump gets elected. Nobody knows what this would mean. For the sake of argument, let’s suppose he ‘gets tough’ with China and Mexico, and imposes barriers to US imports from those countries. Given what you know about the Balance of Payments, what might be the effect on the US financial account? How would this change in the US financial account affect US interest rates and investment spending? How would the change in interest rates affect the value of the US dollar, and how would this affect US imports?