

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Fall 2010

PROBLEM SET 3
(Due December 3)

The following questions are short answer. 30 points each.

1. Recently, many countries were upset by the U.S. announcement that it would engage in another round of 'quantitative easing' (QE2). Explain why they were upset. How would other economies be affected by the QE2 policy? How does the answer depend on whether they have a fixed or flexible exchange rate against the U.S. dollar? Use graphs to illustrate your answer.
2. Suppose the U.S. is currently in a recession, and is contemplating policy measures to speed up its recovery. Would Canada rather have the U.S. engage in a policy of monetary expansion or fiscal expansion? How does the answer depend on the current state of the Canadian economy? Use graphs to illustrate your answer.