

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Fall 2012

PROBLEM SET 3
(Due December 3)

The following questions are short answer. 30 points each.

1. Briefly describe the ‘Open-Economy Trilemma’. What constraints does it impose on macroeconomic policy in open economies? Read the article, “The Trilemma of International Finance”, by Mankiw, which is posted on the class website. According to Mankiw, how can the Open-Economy Trilemma be used to understand the differences between the USA, China, and Europe?
2. Use our model of ‘First-Generation’ currency crises to describe how and why a financial ‘panic’ can appear to erupt out of nowhere, without obvious new information or news events.