

SIMON FRASER UNIVERSITY
Department of Economics

Econ 446
Seminar in International Finance

Prof. Kasa
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FINAL EXAM
(April 16)

Answer the following questions True, False, or Uncertain. Briefly explain your answers. No credit without explanation. (10 points each).

1. When a Central Bank intervenes to support the value of its currency, it causes the domestic money supply to decrease.
2. Sterilization is ineffective when investors are risk neutral.
3. Recent current account surpluses in China provide evidence that China manipulates its exchange rate.
4. The IMF should not bail out countries in response to currency crises.

Answer each of the following three questions.

5. (20 points). Briefly describe the “Allocation Puzzle” discussed in the paper by Gourinchas & Jeanne. What evidence do they use to identify this puzzle? On what assumptions is it based? According to Gourinchas & Jeanne, what is driving this puzzle?
6. (20 points). Briefly describe the methodology and results in the paper “Growing Like China” by Song, Storesletten, and Zilibotti. Why does the structure of the Chinese economy tend to produce an excess of saving over investment? Do you think tariffs on Chinese goods will be effective at reducing China’s current account surplus? Why or why not? What might be a more effective strategy?
7. (20 points). Why do you think China wants to ‘internationalize’ the RMB? What would be the benefits? Are there any potential costs/dangers? What do you think China needs to do in order to promote greater use of the RMB in world trade and finance?