

Assignment 13: Monetary exchange

Due Friday 9 December. Please submit hardcopy at the beginning of class (11:00 a.m.), or if you prefer, under the door of Wimberly Hall 339C by 10:50 a.m.

Part A: International trade

1. Is a depreciation of the U.S. dollar a good thing or a bad thing for the United States? Explain.
2. Suppose Brazil experiences a severe recession which results in high unemployment and low incomes. Describe the impact on international trade between Brazil and Argentina, one of its major trading partners, and describe and illustrate the impact on the exchange rate between the Brazilian Real and the Argentine Peso.

5. Suppose there is an increase in demand among European countries (that use the Euro) for information technology services produced in the United States.
 - a) Describe and illustrate the impact on the exchange rate between U.S. dollars and Euros.
 - b) Did the U.S. dollar appreciate or depreciate against the Euro? Was the change in the exchange rate associated with a good thing or a bad thing for the United States.
6. Suppose American telecommunication companies reveal technological breakthroughs that will result in production of technological devices that are highly profitable, and therefore financial investment in these companies very profitable. Suppose also that the American companies have patents on their products, so competing companies in Japan will not be able to produce similar products for years.
 - a) Describe and illustrate the impact on the exchange rate between the U.S. dollar and Japanese Yen.

- b) Did the U.S. dollar appreciate or depreciate against the Yen? Was the change in the exchange rate associated with a good thing or a bad thing for the United States?
7. The 2009 American Recovery and Reinvestment Act (stimulus spending bill) included a “Buy American” clause which required public construction projects that used stimulus dollars to use materials produced in the United States. Suppose this causes a reduction in demand in the U.S. construction industry for steel that is produced in India.
- a) Describe and illustrate the impact on the exchange rate between the U.S. dollar and Indian Rupee.
- b) Did the U.S. dollar appreciate or depreciate against the Indian Rupee?

8. Suppose the U.S.-dollar-to-Euro exchange rate is currently 1.25 USD/Euro.

- a) A European business is interested in buying \$1 million in telecommunications services from an American company. How much will it cost the European company in terms of Euros?

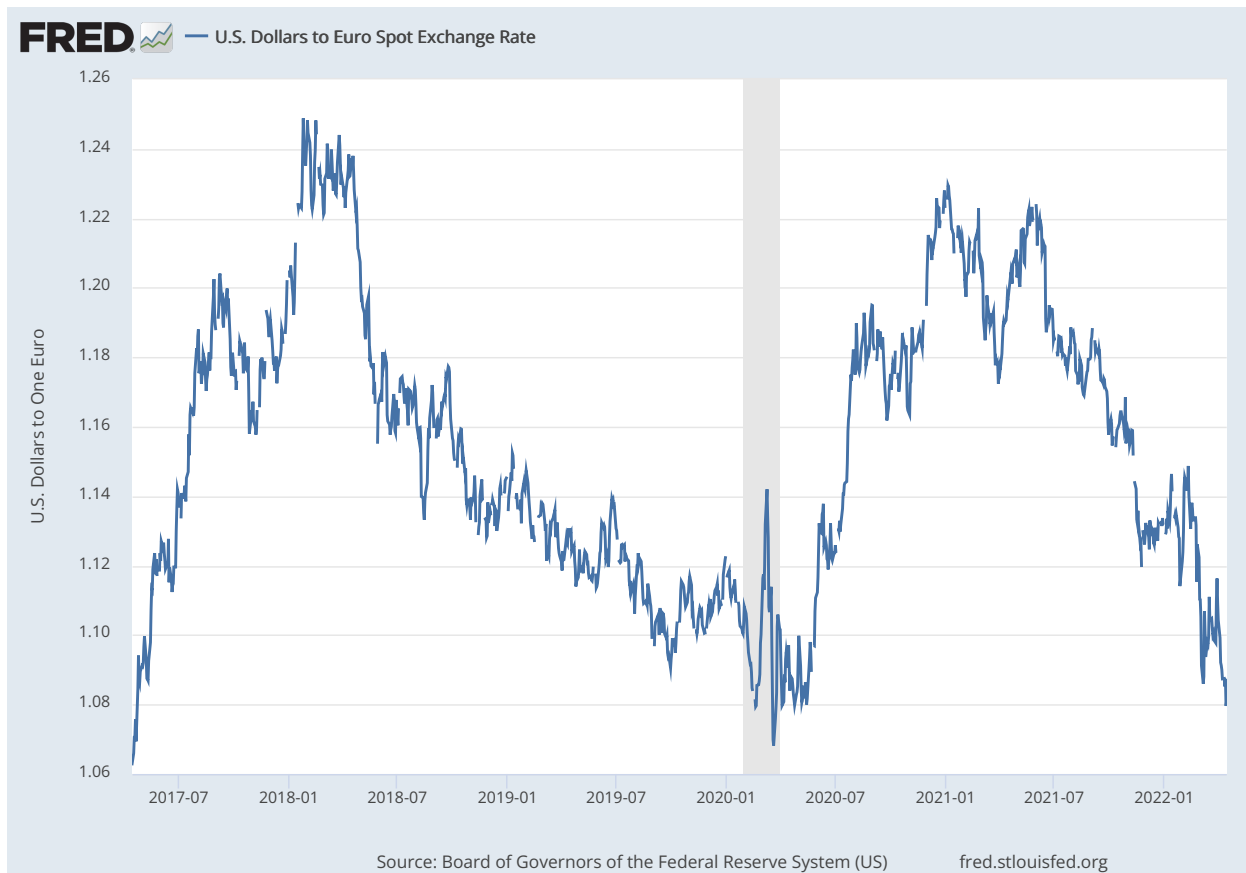
- b) Suppose the exchange rate changes to 1.31 USD/Euro. Did the U.S. dollar appreciate or depreciate against the Euro?

- c) With an exchange rate of 1.31 USD/Euro, how much will the \$1 million in telecommunications services cost the European company in terms of Euros? Would this change in exchange rate likely cause more or fewer European companies to buy telecommunication services from the United States? Would such a change in the exchange rate associated with a good thing or a bad thing for the United States?

9. Is a depreciation of the U.S. dollar a good thing or a bad thing? Explain.

Part B: Trading for French wine

- Suppose that a bottle of French wine costs €10.
- In January 2021, the exchange rate was 1.23 U.S. dollars (\$ or USD) to 1 euro (€ or EUR).
- In January 2022, the exchange rate was 1.13 U.S. dollars (\$ or USD) to 1 euro (€ or EUR).



For the following problems, please show your work and use the data above.

1. How much did a bottle of French wine cost in U.S. dollars in January 2021?
2. How much did a bottle of French wine cost in U.S. dollars in January 2022?
3. How much did a bottle of French wine cost in U.S. dollars in March 2018?
4. Between March 2018 and January 2022, did the euro appreciate or depreciate relative to the dollar? Explain.