

Quiz 4

Macroeconomics: (Term 2, 2017)

Q1: Use the following data for Big Mac prices across different countries and determine the exchange rates. (10 points)

Solution:

Country	Price of A Big Mac	Predicted Exchange Rate	Actual Exchange Rate
South Korea	3,000	1,500 won/\$	1,218 won/\$
Spain	375 pesetas	187.5 pesetas/\$	155 pesetas/\$
Mexico	19.9 pesos	9.95 pesos/\$	9.54 pesos/\$
Netherlands	5.45 guilders	2.72 guilders/\$	2.05 guilders/\$
Indonesia	15,900 rupiah	7,950 rupiah/\$	9,015 rupiah/\$

$$\text{Predicted Exchange Rate} = \frac{\text{Big Mac Price in the given country}}{\text{Big Mac Price in the US}}$$

Assumption: Price of Big Mac in the US is \$2.

Q2: How would the following transactions affect Indian net exports? (10 points)

a. An Indian economics professor spends her September vacations touring museums in Zurich.

Answer: Net exports will fall.

b. Students in Paris flock to watch the latest Kangana Ranaut movie.

Answer: Net exports will rise.

c. Your aunt buys a new BMW.

Answer: Purchase of BMW is an import. Therefore, net exports will fall.

d. The student bookstore at Oxford University sells a pair of Levi's 501 jeans.

Answer: Net exports won't change.

e. A Canadian citizen shops at an antique store in Chor Bazaar, Mumbai.

Answer: Net exports won't change.