Wilf Csaplar Jr. Economics 360 Homework #11 **Due Tuesday 4/21**

Do NOT write your name anywhere. (Canvas will tell me who turned in the assignment.) Take pictures of your answers and use your own software or https://pdfcandy.com/ to create a single PDF. (pdfcandy.com will convert JPG to PDF, resize PDF, merge PDF and just about anything else you can think of with a PDF for free.) Failure to follow these directions will cost you 10 points.

1) (15 points) On Page 438, the description of the graph says that the $ would have to depreciate 20% or 100% to get to equilibrium depending upon which lines are relevant. However, that is wrong. Explain why the 20% and 100% are the appreciation of the euro. Calculate the actual depreciation rates of the dollar.

Note that Question #2 and #3 are only one word different. However, much of the correct answers are different.

2) (35 points) Note that unlike the book, I am doing this question in terms of dollars, not the foreign currency. Draw the supply/demand for US **imports** with the price in US$. Put a scale on the axes. Have the price go to $20/unit and the quantity go to 1000 units. Draw the demand steep and have it cross supply at the price of $12/unit and a quantity of 500. Suppose that the exchange rate there is £.5/$. Now, suppose the exchange rate changes to £.6/$. Illustrate the effects of the appreciation on the graph. Explain why you moved the curve you moved and not the other one. Also, explain why it moved as drawn including how you got two points on the new line. Given the data from that graph, draw two points on one line of the S/D for $ on the foreign exchange market. Explain how you know whether it is the supply or the demand. Explain how you found the points.

3) (35 points) Note that unlike the book, I am doing this question in terms of dollars, not the foreign currency. Draw the supply/demand for US **exports** with the price in US$. Put a scale on the axes. Have the price go to $20/unit and the quantity go to 1000 units. Draw the demand steep and have it cross supply at the price of $12/unit and a quantity of 500. Suppose that the exchange rate there is £.5/$. Now, suppose the exchange rate changes to £.6/$. Illustrate the effects of the appreciation on the graph. Explain why you moved the curve you moved and not the other one. Also, explain why it moved as drawn including how you got two points on the new line. Given the data from that graph, draw two points on one line of the S/D for $ on the foreign exchange market. Explain how you know whether it is the supply or the demand. Explain how you found the points.

4) (15 points) As referenced in a case study in the book, there have been times where financial problems in one country can cause the value of another currency to fall too far. For example, the Mexican peso crisis in late 1994 impacted many South American and Central American countries. Financial investors thought, "If I misjudged the Mexican economy, I probably misjudged other economies like Costa Rica." So, those other countries suddenly saw their currency lose value for virtually no reason at all. What do you think happened to Costa Rican inflation then? Explain your logic.