

**Finance 30220**  
**Problem Set #10**

- 1) The current exchange rate between the US dollar and the Thai Baht is .023 Dollars per Baht. If the U.S. CPI is \$177 and the Thai CPI is 5,850 Baht, what is the real exchange rate between the U.S and Thailand? **(Be very careful about your units here!)**
- 2) Suppose that the Euro exchange rate is \$1.45/Euro while the Indian Rupee exchange rate is \$0.02/Rupee. Calculate the exchange rate between the Euro and the Indian Rupee. **(Again, be very clear on what your units are!).**
- 3) Suppose that the risk free interest rate in the US is 3% per year while the risk free rate of return in Europe is 4% per year. If the current Dollar/Euro exchange rate is 1.55 \$/E, what would the interest parity condition imply about the market's expectation of the \$/Euro exchange rate 1 year from now?
- 4) Explain how the following events would most likely affect savings, investment, the trade balance.
  - a) Consumer confidence in the US falls (think of consumer confidence as a measure of the average citizen's expectation of economic conditions in the near future)
  - b) Microsoft perfects a new operating system that dramatically improves computer performance.
  - c) A war in the middle east causes a dramatic rise in oil prices (hint: oil prices impact a consumer's disposable income as well as the private sector's bottom line)
  - d) The government passes a \$650 billion tax cut (be careful here!)