

Finance 40500
Group Exercise #2

- 1) Suppose that the US exports wheat and imports Televisions. For simplicity, assume that both goods are invoiced in Yen and that the US is too small to influence global market prices. The global price of a television is Y18,000 while the price of Wheat is Y280.

Price of Televisions (in \$'s)	Quantity of TV's imported (Thousands)
\$225	30.6
\$180	60.3
\$150	93.3
\$128	110.2

Price of Wheat (in \$'s)	Quantity of Wheat Exported (Millions)
\$2.00	2
\$2.33	6
\$2.80	12
\$3.50	15

- a) Calculate dollar demand and dollar supply for the following USD/JPY exchange rates: 80, 100, 120, 140 (Yen per dollar)
- b) What is the equilibrium exchange rate?
- c) Is the Marshal Lerner condition satisfied?
- 2) Suppose that the US exports golf balls to England and that England exports wool to the US. We also have the following information:

US Export Elasticity = 2 (i.e. every 1% increase in the British Pound price of golf balls decreases US exports of golf balls to England by 2%)

US Import Elasticity = 4 (i.e. every 1% increase in the dollar price of wool decreases US imports of wool by 4%)

Goods are invoiced in the currency of the country of origin. And the current exchange rate is 2 dollars per pound. Currently, the price of golf balls is \$10 and the US exports 100. The price of wool is L 20 and the US imports 200.

- a) Calculate the US trade balance.
- b) Suppose the dollar depreciates to \$2.20 per Pound. Calculate the effect on the trade balance.
- c) How would your answer change if goods are billed in the currency of the destination country's currency?