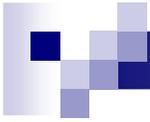


University of Cassino
Economics and Business
Academic Year 2021/2022

International Economics
International Finance
(Exercises V)

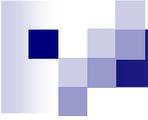
Maurizio Pugno
University of Cassino



Exercise (1)

- Write the formal condition for the balance of the Current Account in the same unit of measurement:

.....



Exercise (1): solution

- Write the formal condition for the balance of the Current Account in the same unit of measurement:

$$PX = P^*EM$$

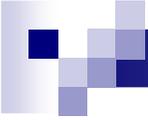
X = exports in real terms

M = imports in real terms

P = domestic (export) prices

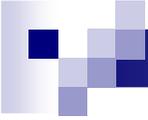
P^* = foreign (import) prices

E = exchange rate (price of foreign currency)



Exercise (2)

- What does it measure the ‘price elasticity of demand for imports’?
 1. a percentage rise of demand for imported goods for a percentage increase of their prices,
 2. a change of demand for imported goods for a change of their prices,
 3. a percentage rise of demand for imported goods for a percentage reduction of their prices,
 4. a percentage rise of demand for imported goods for a percentage reduction of domestic prices,
 5. None of the above.

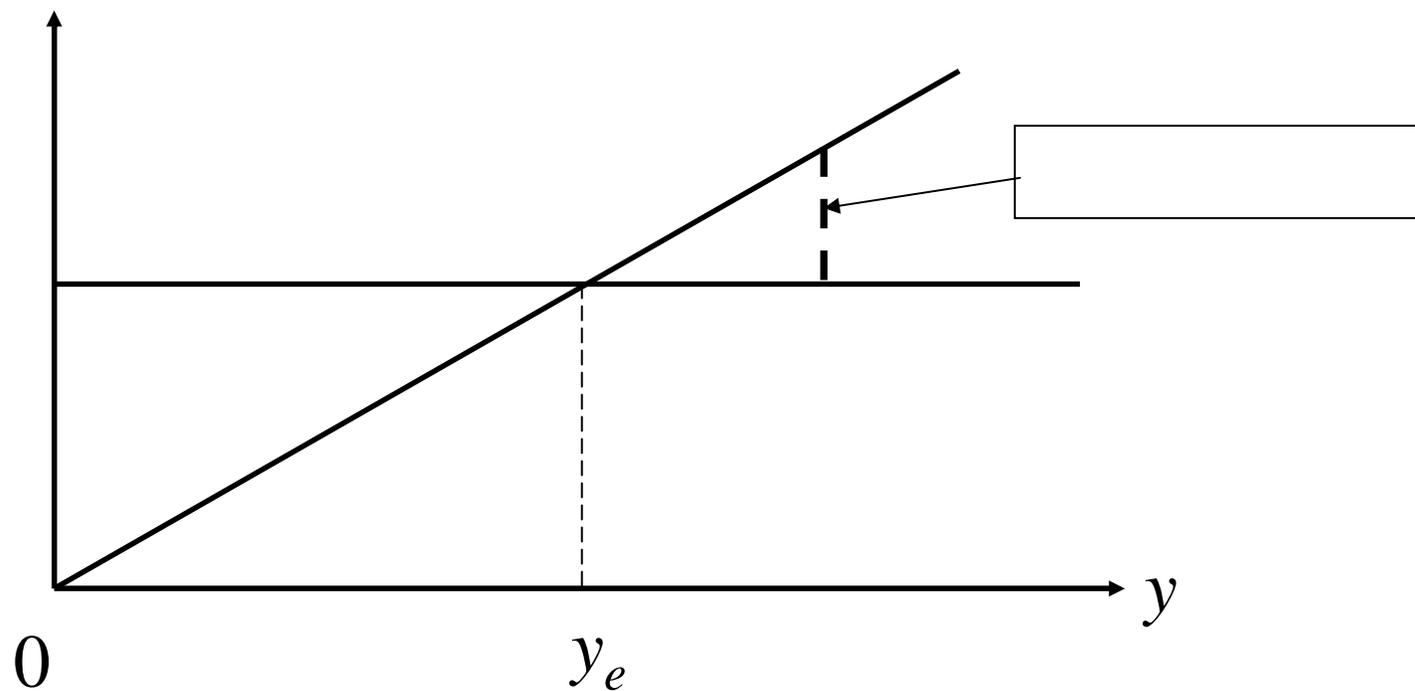


Exercise (2): solution

- What does it measure the ‘price elasticity of demand for imports’?
 1. a percentage rise of demand for imported goods for a percentage increase of their prices,
 2. a change of demand for imported goods for a change of their prices,
 - 3. a percentage rise of demand for imported goods for a percentage reduction of their prices,**
 4. a percentage rise of demand for imported goods for a percentage reduction of domestic prices,
 5. None of the above.

Exercise (3)

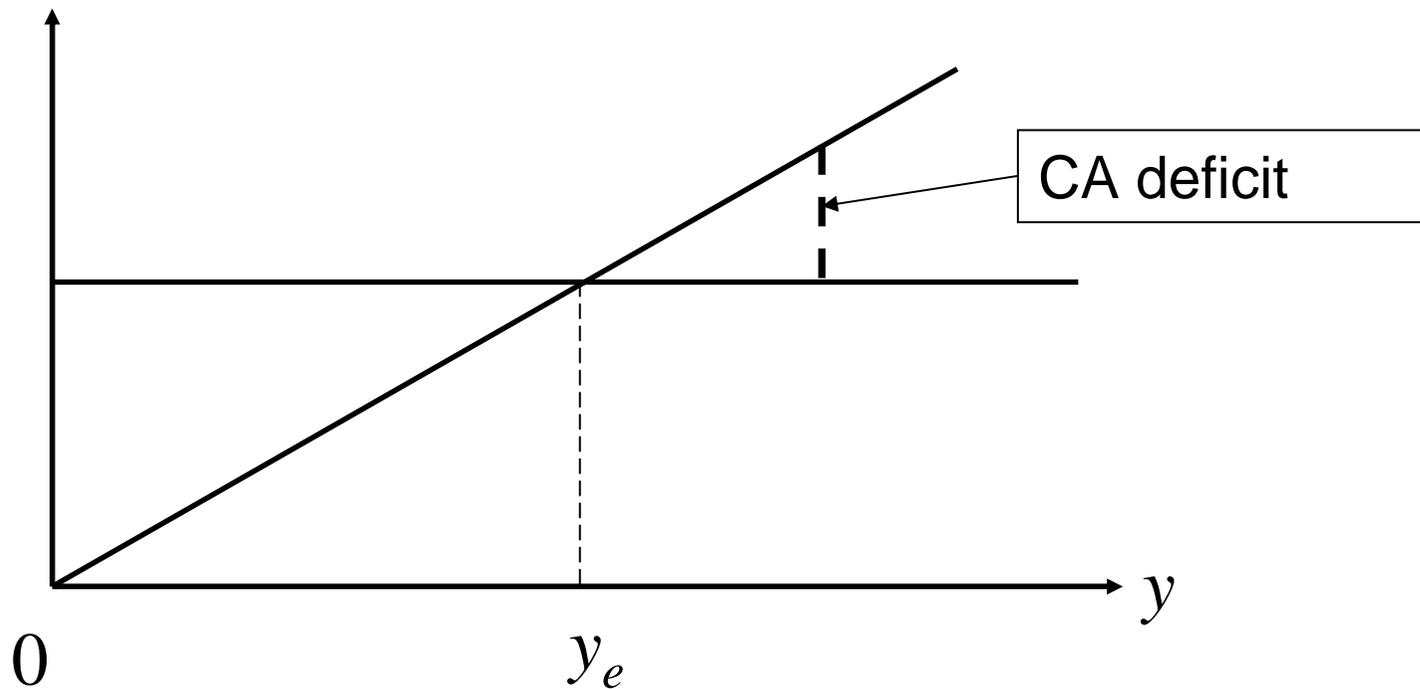
- This is the graphical representation of the solution of the 'export-led and CA constrained growth model'.



What does the segment indicated by the arrow represent?

Exercise (3): solution

- This is the graphical representation of the solution of the 'export-led and CA constrained growth model'.



What does the segment indicated by the arrow represent?



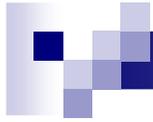
Exercise (4)

- What is the effects of an increase of the income elasticity of demand for exports in the ‘CA constrained growth model’?
 1. The trade balance improves.
 2. Domestic income increases proportionally.
 3. The exchange rate starts to decline.
 4. The income multiplier increases.
 5. Economic growth is higher.
 6. None of the above.



Exercise (4): solution

- What is the effects of an increase of the income elasticity of demand for exports in the ‘CA constrained growth model’?
 1. The trade balance improves.
 2. Domestic income increases proportionally.
 3. The exchange rate starts to decline.
 4. The income multiplier increases.
 - 5. Economic growth is higher.**
 6. None of the above.



End of the fifth
classroom exercises
on
International Finance
M. Pugno