

International Finance - Econ 3331**Assignment 1****Due date and time: 21 September 2011, 14:35****1. General instructions**

This assignment is intended to operationalize several concepts we have learned in the course. Your answers to these assignment questions must reflect your individual work and knowledge. You **cannot** work in groups and share your findings with others.

You must follow the policy on *Academic Integrity* stated in the course syllabus and the *Style Guidelines* attached to this assignment (save these style guidelines for future reference). Answer the questions using an essay format with appropriate figures, tables and references: state your data sources in a note to each table and figure, and show or explain your calculations clearly. Your essay will be marked based on research, logic and organization, and analysis, as well as writing style appropriate for the level of this course (see the course website for the grade rubric). Your analysis, arguments and conclusions must be based on verifiable evidence.

Late assignments will be marked down by 10 percent per day.

2. Assignment

Background.—Those *new* concepts that form the background knowledge for this assignment include: base year, the real exchange rate, the effective (nominal) exchange rate, and the effective real exchange rate. See lecture notes chapter 2.

Object.—You are asked to compute the effective (nominal) exchange rate, real exchange rate, and effective real exchange rate indexes using a *base year*. To calculate your base year, add the last digit of your student ID number to 1990. (For example, if your ID number ends with 9, you have $1990 + 9 = 1999$.)

(a) Compute the *effective exchange rate* index for the Canadian dollar from 1990 to the latest year available. In your calculations, you must use the national currencies of at least three major trading partners of Canada.

(b) For the same period, compute the *real exchange rate* index for the Canadian dollar in terms of each of the currencies in your answer to part (a). Calculate these real exchange rate indexes using either the consumer price index or the GDP deflator for each country.

(c) For the same period, compute the *real effective exchange rate* index for the Canadian dollar using the same currencies in your answer to part (a) and the price index in your answer to part (b).

You must report your findings in an essay format. Your essay must have a title, and the following structure:

1. **Introduction:** The introduction must grab the attention of the reader, and state the purpose of your essay. See Turabian (2010, Chapters 6–8) for effective writing.

2. **Main body:** The main body of your essay should briefly discuss your method(s). There should be a figure, which shows the nominal (spot) exchange rate (in terms of the U.S. dollar), effective nominal exchange rate, and the effective real exchange rate of the Canadian dollar from an official publication, such as the Bank of Canada and IMF, *International Financial Statistics*. You should report your own findings in a separate figure. You should compare and contrast the real and nominal effective exchange rates over time. Your discussion should inform the reader about the appreciation or depreciation of the Canadian dollar relative to these currencies over your sample period. See Turabian (2010, Chapter 11) for guidance on effective figures.
3. **Conclusion:** The conclusion should synthesize your findings, and discuss their basic economic (policy) implications.
4. **Data Appendix:** Present your raw data in a table (do **not** attach a computer printout from a database; put the data in your own tables). Do not report more than 2 or 3 digits unless essential.

Maximum 3 double-spaced pages (plus maximum 3 page Data Appendix).

References

Turabian, Kate L., 2010. *Student's Guide to Writing College Papers*. University of Chicago Press, Chicago and London, 4 edn. Available at the Killam Library Reference Desk Collection.