

ECN 209 International finance
Problem set 1

1. Questions 3, 5 from Krugman and Obstfeld.
2. Questions 9, 10 from Krugman and Obstfeld (note: the two are very much related).
3. Write down the the goods market equilibrium condition for an open and show how it implies a link between a country's budget and current account deficits. Discuss to which extent it is correct to conclude from such a relationship that an increase in the budget deficit causes a higher current account deficit.