

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Fall 2024

PROBLEM SET 2
(Due November 26)

1. (25 points). To the surprise of many, Donald Trump was re-elected president of the USA on November 5th. One of his main campaign promises was to impose tariffs on imports. Since Republicans will also control Congress, this is very likely to happen.
 - (a) Use the DD-AA model to illustrate the short-run effects of this policy on the US economy. Compare and contrast how this policy will affect China and Canada. (Hint: China has a fixed exchange rate with the USA, while Canada has a flexible rate). To keep things simple, ignore the possibility that foreign countries might retaliate.
 - (b) Again use the DD-AA model to illustrate the long-run consequences of this policy. Will America's standard of living improve, as predicted by Trump?
2. (25 points). Read the article entitled "The Trilemma of International Finance", by Mankiw, which is posted on the class webpage. According to this article, what is the Trilemma of International Finance? Provide examples of countries that have chosen each policy combination of the trilemma triangle.