

Problem Set 3
(due Monday, March 4)

Econ 513

1. Answer the following questions:
 - a. Does absolute the law of one price hold for your country with respect to the United States? Give example for at least 1 good.
 - b. Based on the example given in part a) would you characterize your country's real exchange rate as over- or under-valued?
 - c. Calculate the real exchange rate index for your country with respect to the United States. Use annual statistics for the past 5 or more years. (You may use *IFS* or any other source for your data. The U.S. CPI is available on the course website.)
 - d. Based on the data you found in the previous question, does relative PPP hold?
 - e. Has the real exchange rate appreciated or depreciated?
 - f. Do you think that the something should be done about your country's real exchange rate? Explain your answer.
 - g. Bonus question: Using the *Directions of Trade Statistics* find trade weights for your country and calculate the real effective exchange rate for your country. Is the answer different from part c?