

Assignment 1 (week 37): Intertemporal trade and the current account balance

1. Using the two-period model of a small open economy with investment discussed in the lectures, show graphically that if the world interest rate is above the autarky interest rate, the country will run a current account surplus in the first period. Explain the intuition behind this result and discuss the critical assumptions underlying the theoretical model.
2. Exercise 2 to chapter 1 of Obstfeld&Rogoff (1996): *Logarithmic case of the two-country endowment model*
3. Exercise 3 to chapter 1 of Obstfeld&Rogoff (1996): *Adding investment to the last exercise*
4. Explain how a country can gain from imposing a tax on foreign borrowing or lending.