

**NAME:**

**NUMBER:**

***Financial Markets and International Finance***  
***IK Finanzmärkte und internationale Währungsbeziehungen***

### **PROBLEM SET 3**

**INSTRUCTIONS:** Please submit your answers on 8 May 2007, in class.

1. Using the Bangladesh version of the 123 model, what is the impact of an increase in import tariffs by 10% (i.e. a new 10% tax) on volumes of exports and imports, and on the real exchange rate (i.e. the relative price of non-tradables to tradables)?
2. Using the Bangladesh version of the 123 model, what is the impact of an increase in foreign capital inflows (represented by foreign savings) equal to 10% of base GDP. Again, please focus on exports, imports, and the relative price of non-tradables to tradables.
3. Using the Bangladesh version of the 123 model, assume that a 10% import tax is imposed (exercise 1 above) following a surge in foreign savings (from exercise 2 above) equal to 10% of GDP. Again, please focus on exports, imports, and the relative price of non-tradables to tradables.