Department of Economics
Duke University

Professor Martín Uribe
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Economics 170
International Macroeconomics
Homework 6
Due 3/3

International Capital Market Integration

1. Suppose that the U.S. domestic interest rate is 5 percent and that the interest rate in Brazil is 10 percent. The current market exchange rate is 250 Brazilian reals per dollar.
   (a) If the exchange rate in one year goes from 250 to 255 reals per dollar, is it more profitable to invest in U.S. bonds or in bonds from Brazil?
   (b) If covered interest rate parity holds, what is the forward exchange rate?
2. Using the concepts developed in class, provide an analytical discussion of pages 177-180 of the rticle "How Far Will International Economic Integration Go?," by Dani Rodrik (*Journal of Economic Perspective,* Winter 2000, p. 177-186). The article is posted on the course's website.