International economics

[Literature](), [Russian Literature]()

International economics A current account balance refers to an instrument that measures the foreign trade of acountry (Becker 100). Its relationship with net exports is that a surplus in the current account results in an increase in a country’s net foreign assets while a deficit reduces a country’s net foreign assets. Conversely, a current account surplus.

2. The elements include goods, income, services, and current transfers.

3. A financial account is a constituent of the balance of payments of a country. The financial account represents loans and investments while the current account represents the trade balance which includes imports and exports.

4. A debtor nation is that which has a negative balance of trade owing to numerous debts owed to international financial institutions while a creditor nation is that which has a positive balance of trade. Entries like exports, loan receipts and investments constitute surplus, hence indicate creditor status while those entries like amount expenditure, are considered deficits and indicate a debtor status (Becker 123).

5. Exchange rate refers to the market rates at which a given currency trades in relation to others. Depreciation refers to the decrease in a country’s exchange rate while appreciation is the decrease in a country’s exchange rate. Arbitrage is the systematic purchase of a good or service from one location at a very low price, and selling it in another location at an exceedingly high price. In exchange markets, arbitrage is used by traders by exploiting weaknesses in computerized systems to make quick profits (Becker 123).

6. Purchasing parity refers to a system normally used in determining various

currency values in relation to others. Purchasing power parity would hold when the price of commodities were equal in all countries (Becker 223). A free market economy where goods enter and leave borders may make purchasing parity a good estimate of a country's currency.

7. The following shows how exchange rate growth is closely connected to differences in money growth, and real output growth across countries whereby the growth of real output leads to a money growth, which subsequently leads to increase in the exchange rate

8. Demand for Canadian dollars as foreign exchange for holders of the Icelandic Krona

1. The supply curve is upward sloping since the increase in the supply of Canadian dollars leads to an increase in the value of Icelandic Krona. This may arise due to increased inflation in Canada and poor monetary economic policies.

9. The above graph shows that an increase in the Canadian dollar value leads to a corresponding decrease in the value of the Icelandic Krona. This may take place due to an increased demand for Canadian dollars and less demand for Icelandic Krona

11. The equilibrium exchange rate between the CAD and the Icelandic Krona is 10 which means at the rate where the CAD exchanges with the Canadian dollar 1 CAD= 0. 1 Icelandic Krona. When there is a recession in Canada, its dollar will depreciate in value and subsequently make the Icelandic Krona to gain against the CAD, hence be stronger and stable against this currency.

12. The exchange rate risk inherent in exporting, and importing goods and

services

The exchange rate risk in exporting and importing goods and services is transacted exposure where there is risk in fluctuation of the foreign currency in which a business operates. Economic exposure, whereby there unexpected currency fluctuations brought about by economic forces within and outside the country. The forward exchange market is the market whereby contracts ensure that upcoming deliveries of foreign currency at a specific exchange rate are made . The forward exchange market addresses exchange rate risk by making sure that exporters are paid a certain amount of money irrespective of foreign currency fluctuations. The forward exchange rate and spot exchange rate a liners relationship since the spot exchange rate does not affect the forward exchange rate. The spot exchange rate is bound to hold since it is mostly used by many business people.

13.

Works cited

Becker S. Gary. Economic Theory. Piscataway, NJ: Transaction Publishers, 2011. print.