**International Macroeconomics and Finance 2023/2024 HW1**

*This homework assignment contains 3 questions, collectively worth 4 points. Submit the assignment in hard copy by* ***Monday 26th February 17:00pm*** (i.e. before the 2nd lecture next week)*. In case you are not able to submit the homework in person, you can send the answers to* [*alessandro.chiari@fsv.cuni.cz*](mailto:alessandro.chiari@fsv.cuni.cz) *before the deadline with „International Macro HW1“ in the subject.*

*Please, work individually.*

Your name:

1. There are countries that traditionally run large current account surpluses, and countries that run large deficits. Give two examples of countries in each category and briefly discuss the possible threats of such high imbalances. (1 pt)
   1. During the lecture, a two-period utility function was introduced:

What is the parameter ? What role does it play in the utility function? Discuss in 2-3 sentences. (0.5 pts)

* 1. The Euler equation in the basic two-period model is specied as follows.

What does it tell us? Explain in 2-3 sentences. (0.5 pts)

1. Consider a simple 2-period model without investment (the pure endowment model). The representative individual maximizes her utility represented by.

Assume that Y1 = 120, Y2 = 95, β= 0.92

1. Assume a closed economy with no access to international borrowing or lending. Compute the equilibrium real interest rate in such an economy. Calculate the level of utility of a representative agent. (1 point)
2. Assume a small open economy with unlimited access to international financial market at global interest rate r = 4%. Compute the consumption path, current accounts for both periods and net exports. Show graphically. Calculate the level of utility of a representative agent. (1 point)