**QUESTION 5**

**COMPLETE PART A or PART B**

**PART A**

*On the 23 of June 2016, The United Kingdom voted to leave the European Union, the outcome of which has been referred to as Brexit. How “Brexit” will affect the UK economy is an interesting question, but the economic effects are international and are not just limited to the UK economy. The U.K. has the fifth-largest economy in the world, but it's not a major trading partner with the Asia- pacific region. Yet, it could mark the beginning of a slowdown in globalization, which has been a key economic driver for the past two decades. Investors hate uncertainty and the process of exit from the EU gives rise to much uncertainty. Initial falls in Asia’s equity markets on the announcement of Brexit indicated an early judgment about the impact on the world economy. A big concern is the extent to which Brexit will disturb the world economy and see a shift towards de globalisation*

**REQUIRED:**

Consider the likely effect of the decision to leave the EU,

1. on the UK economy
2. on a country or region of your choice, via impact on markets and currencies

Your answer should be an application of theoretical concepts you have studied in this course.

**Please note**: A rubric has been provided on blackboard to help you structure your answer prior to this exam.

**Or**

**PART B**

*“Over the past few weeks, market chatter has been preoccupied with speculation over the dire consequences of a strong dollar in a world of rising US isolationism and protectionism.*

*President Donald Trump’s promise of a multi-hundred billion dollar fiscal stimulus in infrastructure and, in response, the prospect of three US Fed rate hikes through 2017 will support a strengthening dollar. But while this should help exporters to the US do well, the mounting protectionist stance, including plans for border taxes, will block cheaper imports. Worse, a rising currency would hurt countries with dollar-denominated debt by raising their costs, precisely when their export revenues fall as they face steeper US trade barriers.*

*While these economic links warrant concern, there is danger from another factor:-backtracking on globalisation is likely to spur greater inflation and have an impact on investments and exchange rates”*

**REQUIRED:**

Consider the issues raised in the above statement. What are the likely economic outcomes from rising protectionism, fiscal expansion and the possibility of rising interest rates? Consider the outcomes on both the large US economy and a country or region of your choice.

Your answer should be an application of theoretical concepts you have studied in this course.

In your answer consider international financial flows (eg current account balances) and the variables that drive them such as trade, exchange rates and interest rates.

**Please note**: A rubric has been provided on blackboard to help you structure your answer prior to this exam.