**Structure of the Critical Thinking Assignment**

You are required to provide critical assessment on the following issue related to various approaches to explaining the effect of depreciation.

1. Define currency depreciation. Explain, if possible, with the use of graphs or numerical example from your **textbook** to explain the possible effect of depreciation on the following:
   1. On trade balance, which is defined as = Export -Import by explaining how export to and import from foreign countries are effect by depreciation.
   2. On capital account by explaining how currency depreciation might affect the inflow and outflow of capital from a country experiencing currency deprecation.
   3. Explain the effect on the Balance of Payments (clue: remember currency deprecation effects the foreign exchange reserve and therefore, has an additional channel though which it effects the balance of payments)

Your answer for part 1 will be sufficient if you are able to address at least **two** of the three issues mentioned above.

1. Explain the elasticity approach and how it can be used to explain the effect of depreciation on trade balance, capital account and balance of payments.

Comment: This an entirely theoretical discussion. However, if you could cite some empirical evidence about import and export elasticity and how it might have affected country’s trade balance in the face of deprecation, it would nice. However, empirical discussion is **not mandatory**. Finally, your **analysis points** will depend on your ability to produce mainly **numerical example and (or) graphs** in line with the examples that we discussed in our live session.

Your answer for part 2 will be sufficient if you are able to provide theoretical discussion and **either** a graphical or a numerical example.

1. Explain the absorption approach and how it can be used to explain the effect of depreciation on trade balance, capital account and balance of payments.

Comment: This an entirely theoretical discussion. However, if you could cite some empirical evidence about how economic absorption(A) can be used to effect trade balance (B) in alterative scenarios about the country’s total production(full employment vs less than full employment), it would nice. However, empirical discussion is **not mandatory**. Finally, your **analysis points** will depend on your ability to produce mainly **numerical example** **and (or) graphs**in line with the examples that we discussed in our live session.

Your answer for part 3 will be sufficient if you are able to provide theoretical discussion and **either** a graphical or a numerical example.

1. Explain the monetary approach and how it can be used to explain the effect of depreciation on trade balance, capital account and balance of payments.

Comment: This an entirely theoretical discussion. However, if you could cite some empirical evidence about how the change in value of money(therefore, the demand and supply of it) could create a chain of events that could alter production(though investment) and therefore, effect trade balance, it would nice. However, empirical discussion is **not mandatory**. Finally, your **analysis points** will depend on your ability to produce mainly **graphical illustrations and numerical examples (or both**) in line with the examples that we discussed in our live session.

Your answer for part 4 will be sufficient if you are able to provide theoretical discussion and **either** a graphical or a numerical example.

1. Compare and contrast between the three approaches. This can be done by the following:
   1. Compare between the mechanisms explained by these three approaches in explaining the effect of currency depreciation. Are there any similarities (clue: the elasticity approach and the absorption approaches are complementary)?
   2. Contrast between the mechanisms explained by these three approaches in explaining the effect of currency depreciation. Are there any dissimilarities (clue: the elasticity approach and the absorption approaches do not talk about how change in the value of money effects capital investment while the monetary approach does)?

Comment: Imagine or even construct a **table** where you have three columns (one for each approach) and two rows (one for compare and one for contrast). Input comparisons and contrast for your better visualization and for me to grade more efficiently.

Your answer for part 5 will be sufficient if you are able to address **both** compare and contrast between the three approaches.