

## Homework for Session 16

### **Part I: Ukraine**

1. *A worrisome sign.* From 2005 through the summer of 2008, the Ukrainian currency was pegged at 5.05 Hryvnia per US\$. Meanwhile, inflation in Ukraine was averaging about 10% higher in Ukraine than in the US.
  - a. If prices are rising on average faster in Ukraine, but the exchange rate is fixed, what will this tend to do to Ukraine's exports?
  - b. What will it tend to do to Ukraine's imports?
  - c. What will that tend to do to Ukraine's national reserves?

[To think through this, it may help to pick a product, say Ukrainian chocolate, that it would like export, and a product, say German cars, that it would like to import. Now consider how Ukrainian price inflation affects demand for these goods.]

2. *Pressures unleashed.* Read the articles and information about Ukraine.
  - a. What has happened to the Ukrainian exchange rate? Does this seem inevitable given your answers to Question 1?
  - b. Trade. Ukraine's main export is steel. Steel prices, like the prices of many commodities, have collapsed. Meanwhile, Ukraine imports natural gas from Russia. While Russia has traditionally sold the gas well below market rates, recently Ukraine agreed to pay substantially higher prices in 2009 and full EU prices in 2010.<sup>1</sup> What do these price changes mean, other things equal, for Ukraine's economy?
  - c. Finance. According to the Economist Intelligence Unit, more than 50% of Ukraine's domestic debt is denominated in foreign currency. Do you think these debts will be repaid?
  - d. What did the IMF do initially to help Ukraine?
  - e. What is the effect of political conflicts within the Ukrainian government on the ability to respond to this growing crisis? Will the IMF continue to provide support to the Ukraine?

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<sup>1</sup> Russia and Ukraine have engaged in extraordinarily tense bargaining over the gas price for several years. Most recently, the dispute resulted in temporary shutdowns of Russia's pipelines across Ukraine, leaving millions of Europeans without gas supplies in January 2009.

## **Part II: Companies in crisis**

- a) What kinds of business enterprises in a country would be most likely to suffer in a currency crisis? Why?
- b) What kinds of business enterprises would be least likely to suffer and might even gain? Why?
- c) In the “Happy Camper” article what is the core nature of the opportunity for Warburg Pincus? What are the risks for this kind of investment?