

SENSHU UNIVERSITY

PUBLIC LECTURE SERIES

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The Chinese Yuan

In this lecture, at first, he summarized some of idea from the third lecture, “Key ideas investment”.

Then, he lectured on the topics of this week, the “Chinese dollar”

○ When your friend opens a Sushi shop:

We need to define the market in terms of geography, and in terms of product.

And we need to check the market size from four conditions and characteristics to make profit. The four conditions are ①large numbers of buyers and sellers ②quick and accurate flow of information ③products identical or similar to others ④easy to enter the market.

If people like her restaurant, the demand is high. Then the quantity of meals is high. She will supply more sushi. So the average cost of each meal will go down. And the demand and the price per each meal are high. So she can make lots of money.

But she can't so much money in the future. Though other people open sushi shops, your friend can't stop other people coming in the market. Then the demand will go down. So at the second step, she can't make so much money and her profit will reduce.

○The Chinese Yuan

In this lecture: Talk about key issues relating to the value of the Chinese yuan

Separate the issues into external and domestic concerns.

Assess whether the concerns are valid

Discuss the future trends in the yuan

Some American manufacturers accuse, China of keeping the yuan undervalued, and say China is selling their products abroad at unfair prices. Actually, US dollar/yuan exchange rate is constant for about 10 years. And American manufacturing employment is decreasing. Some Americans say Chinese are stealing US jobs. USA have large trade deficit with China. It is caused by not only an undervalued yuan.

First, the supply of dollars must equal the demand for dollars. US trade deficit must be offset by a surplus on US sales of assets. Second, savings must equal investment. These two idea are linked complicatedly. For example, US government budget deficit cause borrowing and high interest rates. And USD becomes stronger. Then it could be

contributing to the US trade deficit. This is not caused by China. The American government cause the trade deficit, because of the government budget deficit.

But if the yuan becomes stronger, the US trade deficit wouldn't be reduced. Because US demand would simply shift to other countries. USA is spending too much and saving is low. And if the US has a trade deficit, it's better to have a deficit with a cheap labor country like China.

If the yuan is undervalued, it may cause bubble in China. This year the Chinese yuan revalued. His opinion is large rise of yuan is unlikely. That is because of unemployment in US, China's USD assets, and FDI. Strength of yuan may cause inflation in China, political instability from large Chinese job losses, and so on.