**Economics 304** **Fall 2013**
**Daily Problem #17** **November 1**

Suppose that the current nominal interest rate on one-year U.S. government bonds is 3%, that the current spot exchange rate is 100 yen/$, and that everyone expects that one year from now the spot exchange rate will be 102 yen/$. What rate of return will a Japanese wealth-holder earn by converting yen to dollars today, investing in a U.S. government bond, and converting the proceeds back to yen one year from now? What must be the nominal rate of interest on a Japanese government bond?