

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (20 points) Illustrate an increase in the European interest rates on the supply and demand for i . Explain why the curve(s) moved as drawn.
- 2) (10 points) Suppose that the exchange rate was set at 120¥/US\$ and then the government changed it to 110¥/US\$. Did the yen appreciate, depreciate, revalue, or devalue? How can you tell?
- 3) (20 points) What is the economic reason that a current account deficit is normally accompanied by a capital account surplus.
- 4) (25 points) Draw BP line and a point to the lower right-hand side of it. Is there going to be upward or downward pressure on the US\$ in the foreign exchange market. Explain your logic. Illustrate the effects on the curve of the value of the dollar changing as described. Explain why it moved as drawn.
- 5) (25 points) We changed the import function. Illustrate that change on both the Keynesian cross, a.k.a. 45° diagram, and the IS/LM diagram. Explain why the curves moved as drawn.