

The Last One!

The senior taking comprehensive exams will be taking the fourth exam later in the day on 4/16. He should see me to arrange a time. For studying, he should look at the review sheet #4 from last spring. (It can be found on the “Old Tests” page on my web page.) Only chapter 10 will be on this test.

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) (35 points) Explain $BP_e = X(FX_p) - M(FX_p, Y) + K_g(i_d)$. Explain 1) why X, M, and K are in the equation added or subtracted as indicated, 2) why each of them are functions of the terms in parentheses. Note that I took equation 10-12 and eliminated the “ f ” from each part because I thought it made it more confusing.

2) (25 points each) Illustrate the following events on the IS/LM/BP diagram. Explain why the curve(s) moved as drawn. Assume the BP is flatter than the LM curve and assume the exchange rate is fixed. Keep moving the lines until we get back to equilibrium in all markets.

A) An increase government spending.

B) An increase in the money supply.

3) (15 points) Is the open-economy, autonomous expenditure multiplier larger or smaller than the closed-economy, autonomous expenditure multiplier? Explain your logic.