

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (30 points) Use the supply and demand for Turkish coffee priced in Turkish Lira to explain why a decrease in the value of the US\$ of 10% will cause the US\$ price to go up by less than 10%.

2) (15 points) Why is the specie-flow mechanism an automatic process to fix balance of payments deficits?

3) (30 points) Use the 45° diagram to show an increase in government spending. Given your drawing, what do you expect is the size of the government spending multiplier? Explain your logic.

4) (10 points) Explain how an increase in government spending of \$1000 can cause GDP to rise by more than \$1000.

5) (15 points) Is the small country, open-economy, government spending multiplier smaller or greater than for a closed economy? Why?