Wilf Csaplar Jr.   Economics 365   Homework #6   Due 10/18

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) (20 points each) Illustrate the following events on the 45° diagram. Explain why the line(s) moved as drawn.
A) There is an increase in the MPM of that country.
B) The foreign country's MPS increases.
C) There is a balance of payments deficit with a fixed exchange rate similar to the specie-flow mechanism of the gold standard. (What will automatically happen if the government does nothing?)

2) (15 points) Why would a larger MPM_2 cause k'' (the multiplier for an autonomous increase in exports of Country 1) to decrease in equation 17-11 on page 596?

3) (15 points) Why would a larger MPS_1/MPS_2 cause k'' (the multiplier for an autonomous increase in exports of Country 1) to decrease in equation 17-11 on page 596? In other words, why does the ratio of the MPS's matter to the multiplier and why is it multiplied by MPM_2?

4) (10 points) What is the economic reason that $k'' + k^{**} = k^*$?