

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 240 points (to be scaled down to 205 points) and is scheduled to take 120 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give some extra time, but not much.

1) (12 points) Using the table to the right, calculate ONE of the following statistics. Show all work.  
 A) Current Account  
 B) Capital Account

Exports of goods, services, and income	
Goods	719
Services	279
Income receipts from abroad	284
Imports of goods, services, and income	
Goods	-1146
Services	-210
Income payments on foreign assets in US	-269
Unilateral transfers, net	-49
US-owned assets abroad, net (increase/outflow (-))	-371
Foreign-owned assets in the US, net (increase/inflow (+))	753
Statistical discrepancy	11

2) (12 points) Answer EITHER Part A OR Part B.  
 A) The table to the right says that if there is an increase in *US-owned assets abroad, net*, that is an outflow and has a negative sign. Explain why this is true.  
 B) What is a currency swap and why would you use one?

3) (14 points each) For TWO of the exchange rate regimes listed below, why would a country want to use that exchange rate regime?  
 A) Managed (dirty) float  
 B) Dollarization  
 C) Pegged to the Japanese yen with a narrow band

4) (14 points) Answer EITHER Part A OR Part B.  
 A) Explain why fixed exchange rate regimes tend to fall apart.  
 B) What exchange rate regime does your country have? Is that a good one? Explain your logic.

5) (14 points) Answer EITHER Part A OR Part B.  
 A) Is the autonomous expenditure multiplier greater for a large open economy when there are foreign repercussions or when there is a small country with no foreign repercussions? Explain your logic.  
 B) Draw the Swan diagram. Put a point where there is high unemployment. BRIEFLY explain how you know there is high unemployment.

6) (20 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for Hungarian Forint (HF) with the other currency's being the Egyptian Pound (LE). Explain why the curve(s) moved as drawn. Which currency appreciated? How do you know?  
 A) Interest rates in Egypt go up.  
 B) The GDP of Hungary improves.

7) (20 points) Answer EITHER Part A OR Part B.  
 A) Write the equation for interest rate parity, i.e., covered interest arbitrage margin (CIAM). Explain why each term is there.  
 B) Briefly explain how the following variables affect the first variable.  $D = f(i, EA, RP, Y)$ . (This is an abbreviated version of the one in the book.)

8) (40 points) Draw the supply and demand for Mexican hats with the price in Peso/hat. Place a scale on the axes so that you can give the points values. Illustrate a 100% appreciation of the Peso. Explain why the curve(s) moved as drawn. Now use those points to draw two points on either the supply or demand

for the Peso. Briefly explain how you knew which line you were drawing and how you got the two points on the new line.

9) (40 points) Answer EITHER Part A OR Part B.

A) Draw the IS/LM/BP diagram and the SRAS/LRAS/AD diagram for a country with country that is in equilibrium in all markets. **Assume the BP line is flatter than the LM line at there is a fixed exchange rate.** Draw an increase in government spending. Keep moving the lines until all markets except the labor market are in equilibrium. Explain why the curves moved as drawn.

B) Draw the IS/LM/BP diagram and the SRAS/LRAS/AD diagram for a country with country that is in equilibrium in all markets. **Assume the BP line is steeper than the LM line at there is a flexible exchange rate.** Draw an increase in the money supply. Keep moving the lines until all markets except the labor market are in equilibrium. Explain why the curves moved as drawn.

10) (40 points) Answer EITHER Part A OR Part B.

A) Suppose it takes 10 hours of labor to make a shirt in Turkey and 8 hours to make the same shirt in Bangladesh. However, it takes 50 hours to make a rug in Turkey and 80 hours to make the same rug in Bangladesh. Turkey has 2000 hours of labor, but Bangladesh has only 1600 hours of labor. What are the opportunity costs of producing a rug in each country? Draw two diagrams. The first diagram is the PPF and CPF for Turkey. The second diagram is the PPF and CPF for Bangladesh. What is the relative price they trade at. Explain how you got the opportunity costs, the endpoints of the curves, and the slope of the CPFs.

B) Suppose it takes 1 hour of labor is used to make 5 shirts in Turkey and 1 hour is used to make 20 shirts in Bangladesh. However, in 1 hour they make a rug in Turkey and 1 hour to make 2 rugs in Bangladesh. Turkey has 40 hours of labor, but Bangladesh has only 10 hours of labor. What are the opportunity costs of producing a rug in each country? Draw two diagrams. The first diagram is the PPF and CPF for Turkey. The second diagram is the PPF and CPF for Bangladesh. What is the relative price they trade at. Explain how you got the opportunity costs, the endpoints of the curves, and the slope of the CPFs.