Wilf Csaplar Jr. Economics 302 Homework #5 **Due Tuesday 10/9**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (10 points) Explain $S^d = I^d + NX$, (This assumes NFP = 0)

2) (15 points) Draw an S/I diagram for a small country with a CA deficit. Explain how you know there is a CA deficit. Illustrate the effects of a decrease in the world interest rate. Explain why the curve(s) moved as drawn. What happens to the CA deficit, the interest rate, the level of saving and the level of investment?

3) (15 points) Draw an S/I diagram for a small country with a CA surplus. Explain how you know there is a CA surplus. Illustrate the effects of a temporary positive supply shock. Explain why the curve(s) moved as drawn. What happens to the CA surplus, the interest rate, the level of saving and the level of investment?

4) (30 points) Draw an S/I diagram for a large country with a capital-financial account surplus. Explain how you know there is a capital-financial account surplus. Illustrate the effects of an increase in government spending in the rest of the world. (Assume Ricardian Equivalence does not hold.) Explain why the curve(s) moved as drawn. What happens to the capital-financial account surplus, the interest rate, the level of saving in both countries, and the level of investment in both countries?

5) (30 points) Draw an S/I diagram for a large country with a capital-financial account deficit. Explain how you know there is a capital-financial account deficit. Illustrate the effects of an decrease in the price of capital in the rest of the world. Explain why the curve(s) moved as drawn. What happens to the capital-financial account deficit, the interest rate, the level of saving in both countries, and the level of investment in both countries?