

The last one!

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) Draw the IS/LM/BP diagram for a country in equilibrium. Assume that the exchange rate is flexible and the BP line is flatter than the LM line. Illustrate an increase in **government spending**. Illustrate the point that is the new, temporary equilibrium. Given the market that is out of equilibrium, what will happen to cause the curve(s) to move towards equilibrium in all three markets? Illustrate that even on the diagram. Explain all movements of curves and how your two equilibria are found.

2) (35 points) Draw the IS/LM/BP diagram for a country in equilibrium. Assume that the exchange rate is flexible and the BP line is flatter than the LM line. Illustrate an increase in the **money supply**. Illustrate the point that is the new, temporary equilibrium. Given the market that is out of equilibrium, what will happen to cause the curve(s) to move towards equilibrium in all three markets? Illustrate that even on the diagram. Explain all movements of curves and how your two equilibria are found.

3) (15 points) Why does the BP line slope upwards?

4) (15 points) Does an open economy or a closed economy have a greater autonomous expenditure multiplier? Why?

If you have looked at the syllabus lately, you may have noticed that the final is in two parts. The first part is on the last day of classes. It will be similar to the first part of 162's final last semester. You can get it on the web. I will also provide information about the current account and I would expect some more detail than they were expected to give. Obviously, the numbers will not be the same as they had.