

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.

We will be meeting during my office hours on Thursday. Come by some time between 4:00 and 5:00pm to discuss the previous assignment and the material you are reading.

This assignment covers section 16.4 - through section 17.3. Ignore the Appendix and the graphs that set $S + M = I + X$. Instead, concentrate on the 45° that you learned in Economics 162 and/or Economics 302.

1) (10 points) Given the diagram to the right, is this a stable or an unstable equilibrium? How can you tell?

2) (20 points) Using the Marshall-Lerner condition, explain why is it unlikely that you will find unstable exchange rates in the real world?

3) (20 points) Explain why the J-curve takes that shape.

4) (15 points) How did things differ under the gold standard than they do now that the gold standard is no longer in place?

5) (20 points) Using the full 45° diagram [not the one in figure #17.1 that just covers $C + I$, but rather $C + I + G + NX$] show an increase in government spending. Using your graph, estimate the multiplier. Explain why the line moved as drawn and explain how you estimated the multiplier.

6) (15 points) Would an open or closed economy have a larger multiplier? Why?

