

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.

This assignment covers section 18.5 - through the end of the chapter (section 18.7). That may not seem like much, but it is a short week, it is hard material, and it catches us up with the syllabus.

1) (7 points each) Explain how and why an appreciation of the currency will move the curve in each part.

A) IS

B) LM

C) BP (assume imperfect capital mobility)

2A) (30 points) Draw an IS/LM/BP diagram with the BP curve steeper than the LM curve. Show expansionary fiscal policy on the diagram. Also show how the economy moves back to equilibrium in all three markets. Explain why the curve(s) moved as drawn. Assume that the exchange rate is flexible.

2B) (24 points) On a separate graph, redo 2A, except assume that the exchange rate is fixed. Explain the movement(s) of the curves.

2C) (5 points) Some of the countries in the EU are reluctant to use the euro. Given the other parts of this question, why would they oppose having the euro?

3) (10 points each) Use the diagram of interest rates vs. government spending to answer these questions.

A) Why does the area to the lower-right of the EB line represent a deficit?

B) Why does the area to the lower-right of the IB line represent inflation?

4) (0 points) Find the largest number so that all permutations and all subsets of all permutations are prime. For example, if the number is XYZ, then XYZ, XZY, YXZ, YZX, ZXY, ZYX, XY, XZ, YZ, YX, ZX, ZY, X, Y, and Z are all prime. Assume that 1 is prime and 0 is not. (April fools')