

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.

Because this course has both a homework assignment and a test due during your last week in the course, the assignments must slowly begin moving to come due at the beginning of each week. Therefore, I propose that each assignment be due on the day of the week prior to the day of the previous assignment. Therefore, this assignment will be due Thursday and the next one will be due on Wednesday. If any of those dates are poor, we can change them. Do we want to meet on Thursday at the normal time or Tuesday at 4:00? The advantage of changing the day is that the discussion of the material will occur before the assignment will be due.

This assignment covers chapter 19.

1A) (30 points) Use the IS/LM/BP diagram and the SRAS/AD diagram for an open economy with fixed exchange rates to show an increase in government spending. Explain the reasons that the curves moved as drawn.

1B) (10 points) How would your answer differ if the country has flexible exchange rates? Why would it have that difference?

2A) (30 points) Use the IS/LM/BP diagram and the SRAS/AD diagram for an open economy with flexible exchange rates to show an increase in the money supply. Explain the reasons that the curves moved as drawn.

1B) (10 points) How would your answer differ if the country has fixed exchange rates? Why would it have that difference?

3) (20 points) Illustrate on the SRAS/LRAS/AD a short-run equilibrium with larger than normal unemployment. Illustrate what will happen if there is not government intervention. Explain why the curves moved as drawn.