

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I will give a few extra minutes, but probably no later than about 5 or 10 minutes after the hour.

1) (10 points) Define EITHER the term SDR OR the term IMF.

2) (14 points each) Answer this question for TWO of the countries described below. What type of exchange rate regime would you expect that country to have? Why would you expect that? Use just the information given below to reach your conclusions. State any assumptions that you make based upon each of the statements about the countries described.

A) Swaziland is a small country which is almost completely surrounded by South Africa.

B) Qatar is a small country whose economy depends almost exclusively upon oil.

C) A large lesser developed country that cannot raise much in taxes, so it pays for some of its goods by printing money.

3) (16 points) Do EITHER part A OR part B.

A) Developing countries have problems with exchange rate regimes. Why might their exchange rates be more unstable than the exchange rates for developed countries?

B) What could cause a country to face a currency crisis? How can it be avoided?

4) (28 points) Illustrate EITHER the event in part A OR the event in part B on the IS/LM/BP diagram drawn with a BP curve that is flatter than the LM curve. Explain why the curve(s) moved as drawn.

A) Government spending increases with a fixed exchange rate.

B) The money supply increases with a flexible exchange rate.

5) (18 points) Do EITHER part A OR part B.

A) Is the AD curve flatter for an open or a closed economy? Why?

B) Illustrate the event you chose in question 4 on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn.