

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (20 points) How does the multiplier differ between a closed economy and an open economy (k vs. k')? What is the economic reason for that?
- 2) (20 points) How does a larger MPS_2 affect the size of the export multiplier when there are foreign repercussions (k'' vs. k')? Why does it have that effect?
- 3) (10 points) Why is k^{**} larger than k^* ?
- 4) (20 points) Draw the Swan Diagram. Place a dot in the area the book calls "Zone III" and explain why they say that is a "deficit with inflation."
- 5) (15 points) Why does the EE line slope up on the Swan Diagram? You can refer to your diagram in your answer to #4.
- 6) (15 points) Why does the YY line slope down on the Swan Diagram? You can refer to your diagram in your answer to #4.