Wilf Csaplar Jr.   Economics 302   Homework #6   Due Thursday 3/10

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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) (10 points) Explain $S^d = I^d + NX$.

2) (15 points) Draw the S/I diagram for a small open economy with a CA deficit. Prove your diagram has a CA deficit. Illustrate the effects of an increase in the MPK^f on the graph. Explain why the curve(s) moved as drawn. What happens to the interest rate, the level of savings, the level of investment, and the current account?

3) (15 points) Draw the S/I diagram for a small open economy with a KFA deficit. Prove your diagram has a KFA deficit. Illustrate the effects of a positive supply shock on the graph. Explain why the curve(s) moved as drawn. What happens to the interest rate, the level of savings, the level of investment, and the capital financial account?

4) (30 points) Draw the S/I diagram for a large open economy (US) with a CA surplus and the S/I diagram for its trading partner (China). Illustrate the effects of an increase in government spending in China. What happens to the interest rate, the level of savings in both countries, the level of investment in both countries and the current account in the USA?

5) (30 points) Draw the S/I diagram for a large open economy (US) with a KFA surplus and the S/I diagram for its trading partner (EU). Illustrate the effects of an increase in price of capital in the EU. What happens to the interest rate, the level of savings in both countries, the level of investment in both countries and the capital financial account in the USA?