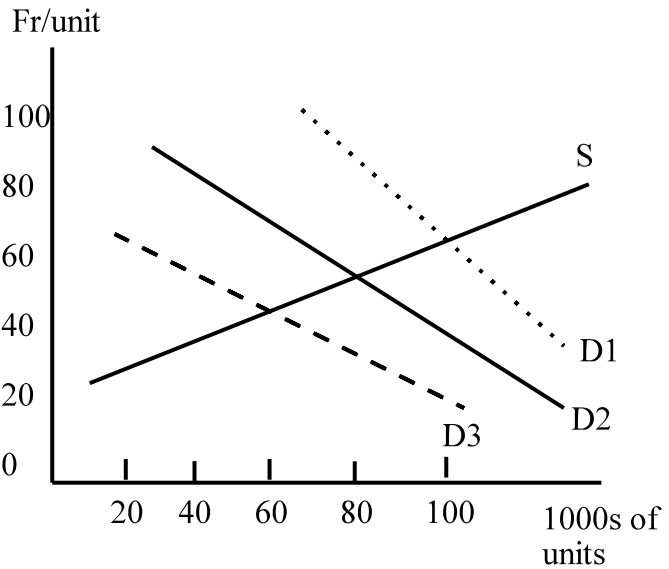


Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (21 points) For the equation $D = f(i, i^*, EA, RP, Y, P, W)$, determine what happens to D when each of the variables changes. Explain the economic reason for each of the relationships.

2) (24 points) Figure 15.5 shows what happens to $M, i, P,$ and R over time after a one-time increase in the money supply. For each of the four panels, the book states what happens in each one, but not the economic reasons for each graph. For the $i, P,$ and R graphs, explain the economic reason for the direction of the change, and the economic reason for whether the change is gradual or immediate.

3) (35 points) Use the diagram to the right to derive either the supply or demand of $[\]$. Explain how you knew whether the graph is for our imports or our exports. Explain how you knew whether it was supply or demand for the $[\]$. Explain how you got the numbers. The three lines correspond to the following exchange rates $\$2/[\]$, $\$1/[\]$, and $\$0.6/[\]$, but not necessarily in that order. Tell me how you knew which line corresponded to which exchange rate.



4) (20 points) The book says that

$$R = \frac{M_s^* k^* Y^*}{M_s^* k^* Y}$$

Explain why an increase in M_s or an increase in Y^* will increase R and why an increase in M_s^* or Y will decrease R .