

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) (15 points) Draw the Swan diagram. Place a point to the left of the intersection. Determine if that point will have unemployment or inflation, and trade deficit or trade surplus. Explain your logic.
- 2) (5 points) Explain why the BP curve slopes upwards.
- 3) (25 points) Draw the IS/LM/BP diagram with the BP curve **steeper** than the LM curve and a **fixed** exchange rate. Illustrate an increase in government spending. Explain why the curve(s) moved as drawn. Make sure that the diagram starts and ends in equilibrium in all three markets.
- 4) (25 points) Draw the IS/LM/BP diagram with the BP curve **flatter** than the LM curve and a **fixed** exchange rate. Illustrate an increase in the money supply. Explain why the curve(s) moved as drawn. Make sure that the diagram starts and ends in equilibrium in all three markets.
- 5) (5 points) Given your diagrams in questions 4 and 5, does the government have control over the money supply when they have a fixed exchange rate? Explain your logic.
- 6) (25 points) Draw the IS/LM/BP diagram with the BP curve **steeper** than the LM curve and a **flexible** exchange rate. Illustrate an increase in government spending. Explain why the curve(s) moved as drawn. Make sure that the diagram starts and ends in equilibrium in all three markets.