

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 10 points. 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) In the article below, about half way through, there is a quotation from George Saravelos. Use the small country S/I diagram to explain the quotation. Make sure you explain why the curve(s) moved as drawn and how it results in his conclusion.

<https://www.marketwatch.com/story/bond-yields-spike-as-kwarteng-unveils-tax-cuts-quantifies-freeze-of-energy-prices-11663925112>

2) (10 points) Explain the equation $S = I + NX$.

3) (35 points) Draw the S/I diagram for a large country with a KFA surplus. State how you know there is a capital-financial account surplus. Illustrate the effects of an increase in the GDP of the rest of the world. Explain why the curve(s) moved as drawn. What happens to the level of saving in both countries, level of investment in both countries, the KFA surplus, and the interest rate?

4) (35 points) Draw the S/I diagram for a large country with a CA surplus. State how you know there is a current account surplus. Illustrate the effects of an increase in the corporate tax rates in the rest of the world. Explain why the curve(s) moved as drawn. What happens to the level of saving in both countries, level of investment in both countries, CA surplus, and the interest rate?