

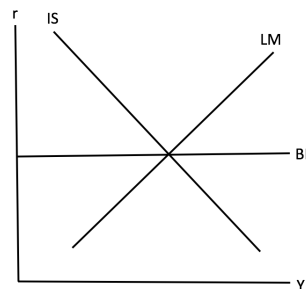
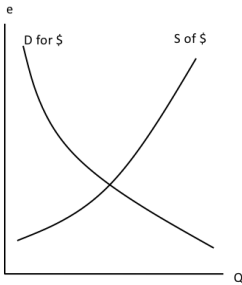
EE312 Macroeconomics, 2/2019 (Sec. 046402/ Sicha)  
 Chapter 6. Framework for Open-Economy Business Cycle

1. **BP line** :  $(X(Y^f, e) - M(Y, e)) + F(r, r^f) = 0$

- $r \uparrow \Rightarrow$  Net Capital Inflow  $F(r, r^f)$ .....  $\Rightarrow (X - M) + F = BP = 0 \Rightarrow M$  must.....  $\Rightarrow Y$ .....
- slope of BP depends on the sensitivity of capital flow (F) with respect to the domestic interest rate (r) ; degree of capital mobility
- high degree of capital mobility  $\Rightarrow$ BP ..... : low degree capital mobility  $\Rightarrow$ BP .....
- On BP line, BOP ..... 0 ; Above BP line, BOP ..... 0, Below BP line, BOP ..... 0

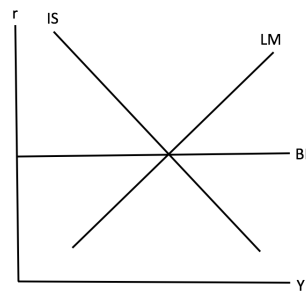
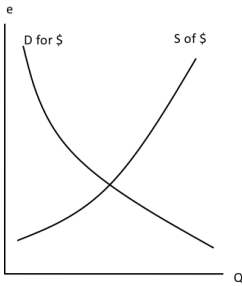
2. **The Mundell-Fleming model**

(a) **Monetary Policies** under fixed exchange rate

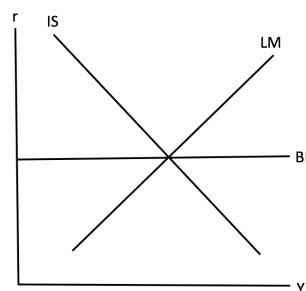
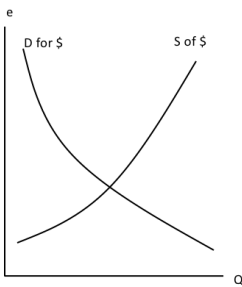


- **Sterilization Policy // Loss of money supply control// Impossible trinity**

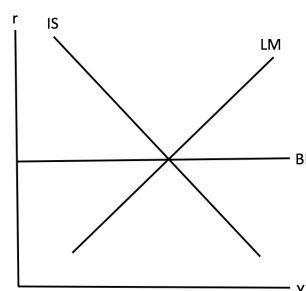
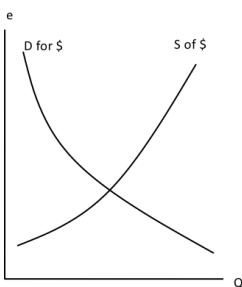
(b) **Fiscal Policies** under fixed exchange rate



(c) **Monetary Policies** under flexible exchange rate



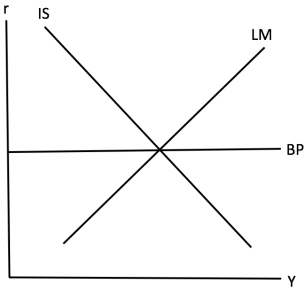
(d) **Fiscal Policies** under flexible exchange rate



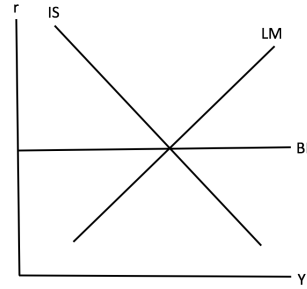
### 3. Shocks Propagation

(a) **Domestic Real Shocks : i.e. business sentiment increases**

- under fixed exchange rate

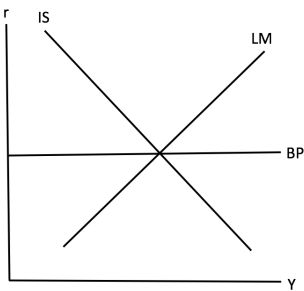


- under Flexible Exchange Rate

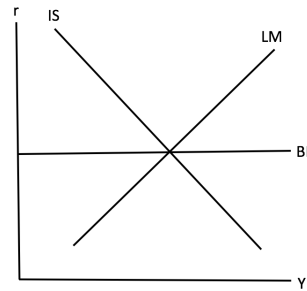


(b) **Domestic Financial Shocks : i.e. Money Demand decreases**

- under fixed exchange rate

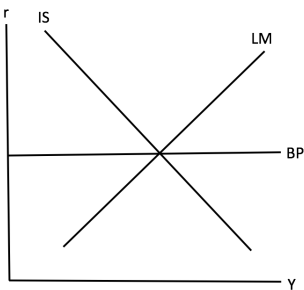


- under Flexible Exchange Rate

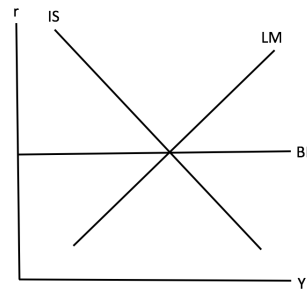


(c) **External Real Shocks : i.e. (X-M) decreases, World GDP decreases**

- under fixed exchange rate

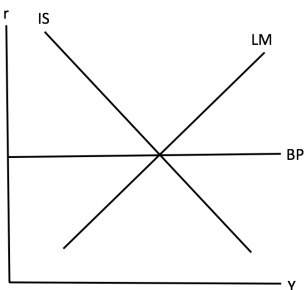


- under Flexible Exchange Rate



(d) **External Financial Shocks : i.e. FED decreases its policy rates**

- under fixed exchange rate



- under Flexible Exchange Rate

