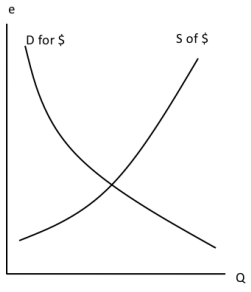
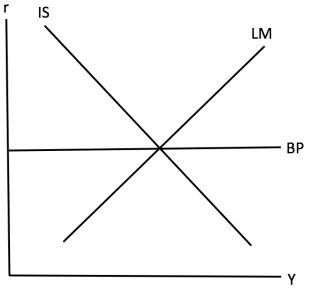
EE312 Macroeconomics, 1/2020 (Sec. 046401/ Sicha)
Chapter 6. Framework for Open-Economy Business Cycle

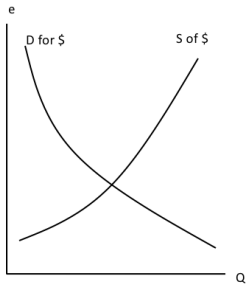
1. **BP line** : $(X(Y^f, e) - M(Y, e)) + F(r, r^f) = 0$
   - $r \uparrow \Rightarrow$ Net Capital Inflow F(r,r^f)..... $\Rightarrow (X - M) + F = BP = 0 \Rightarrow M$ must..... $\Rightarrow Y$.....
   - slope of BP depends on the sensitivity of capital flow (F) with respect to the domestic interest rate (r) ; degree of capital mobilty
   - 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

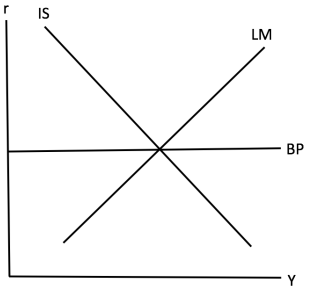




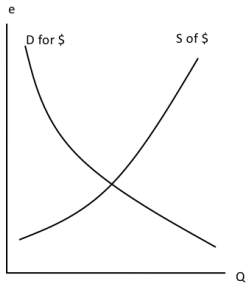
   - **Sterilization Policy // Loss of money supply control// Impossible trinity**

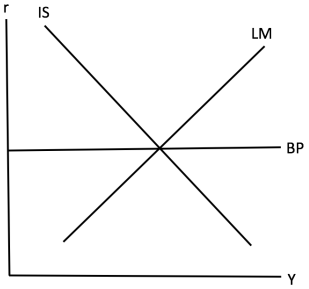
   (b) **Fiscal Policies** under fixed exchange rate



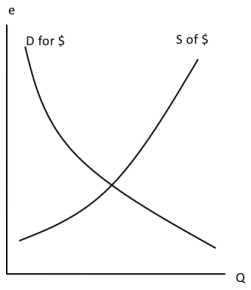


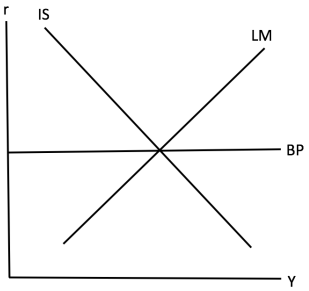
   (c) Monetary Policies under flexible exchange rate





   (d) Fiscal Policies under flexible exchange rate

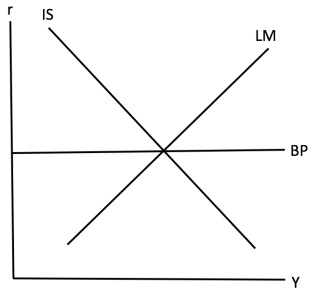




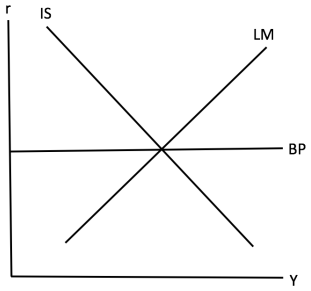
3. Shocks Propogation

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

- under fixed exchange rate

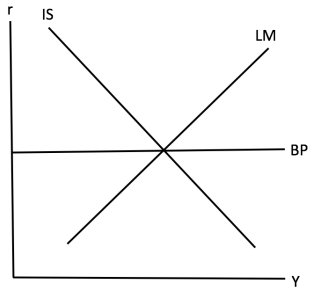


- under Flexible Exchange Rate

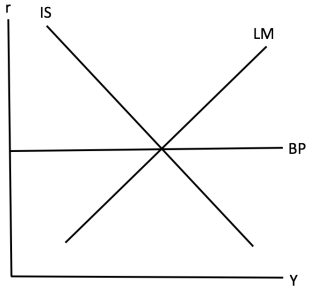


(b) **Domestic Financial Shocks : i.e. Money Demand decreases**

- under fixed exchange rate

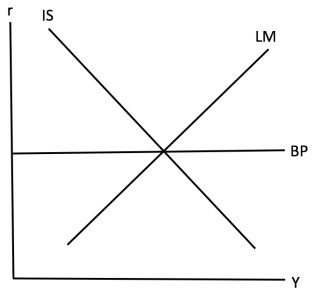


- under Flexible Exchange Rate

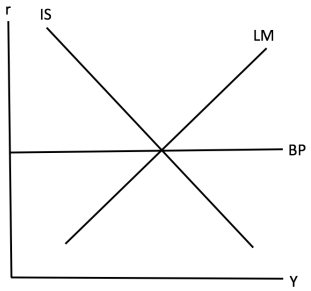


(c) **External Real Shocks : i.e. (X-M) decreases, World GDP decreases**

- under fixed exchange rate

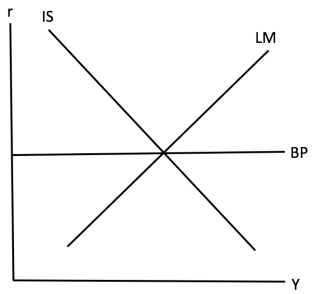


- under Flexible Exchange Rate



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

- under fixed exchange rate



- under Flexible Exchange Rate