



B.E. International Program

Faculty of Economics, Thammasat University



Semester: 2/2011

EE 312 Macroeconomics Theory

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Homework # 3

1. (a) From the website: www.bot.or.th, obtain data on Thailand's average annual exchange rate (Baht per US Dollar) during 1990-2010. Calculate the annual percentage change and plot both the exchange rate and its percentage change. Offer your comments on the fluctuation of the exchange rate during this period.

(b) From the above website, obtain data on Thailand's international reserves in 2010 in both US dollars and in baht. Calculate the share of each component in the foreign currency reserves to total international reserves. Given the fixed amount of foreign currency reserves in terms of the baht, explain what would happen to Thailand's international reserves if the value of baht appreciates or depreciates.

2. What is meant by a balance of payments curve? Suppose, under fixed exchange rate and fixed price, an economy has the following features

Exports: $X = X_0 = 150$

Imports: $Z = u + vY = 50 + 0.1Y$

Net Capital Inflow: $F = F = d r = 10r$

Find the equation for equilibrium in the balance of payments and draw graph for the balance of payments curve. Determine the balance of payments situation under the following situation.

a) $Y = 1200, r = 2$

b) $Y = 1200, r = 4$

c) $Y = 1400, r = 2$

3. Analyze the effects of an autonomous fall in the demand for a country's exports under fixed and flexible exchange rate system. In each case indicate the effects on the country's balance of payments and on the exchange rates. Use IS-LM-BP models and graphical analysis to explain why a flexible exchange rate system can provide an insulation from such an external shock.

4. Within the Mundell - Fleming model (IS – LM – BP) and assuming imperfect capital mobility, with net capital inflow being relatively mobile, analyze the effects of the following policy actions for both the fixed and flexible exchange rate cases.

(a) A decline in the money supply from M_0 to M_1 .

(b) A decrease in government spending from G_0 to G_1 .

5. In an open economy with a fixed exchange rate system and capital flows respond highly to interest rate changes, if the economy is facing a high unemployment problem and balance of payments deficit, should the government use the fiscal or monetary policy to solve the problems? Explain and draw diagrams to illustrate the situation.

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