

Homework 4 , EE312 Macroeconomics, 2/2017 (Sec. 046402 - Sicha)

Please submit at the BE office, 5th floor department of Economics building.

Deadline of submission : February 23, 2018, before 15.00 hr. Late submission will not be accepted.

If the space provided is not enough, please attach a separate sheet.

- 1. The Mundell–Fleming model takes the world interest rate r^* as an exogenous variable. When **the world interest rate rises**, what would happen to aggregate income, the exchange rate, and the trade balance under **both floating and fixed exchange rates**?

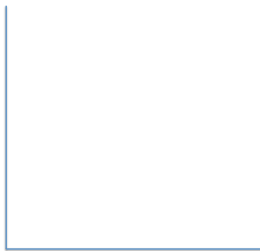
(a) **Under fixed exchange rate**
IS-LM-BP



.....

.....

(b) **Under Floating exchange rate**
IS-LM-BP



Exchange Rate Market



.....

