



# B.E. International Program

Faculty of Economics, Thammasat University



Semester: 1/2012

EE 312 Macroeconomics Theory

Professor Dr. Pranee Tinakorn

Homework # 4

1. Obtain data on Thailand's exchange rate (Baht per US Dollar) during 1990-2009. Plot its movement and offer your observations on its fluctuations.
2. If a central bank never intervened in the foreign exchange markets, could there be deficits or surpluses in a country's balance of payments? Why?
3. Why is there a potential conflict between internal and external balance under a fixed exchange rate system? How does a flexible exchange rate system eliminate such a potential conflict?
4. What is meant by a balance of payment 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  $F = F = \alpha r = 10r$

Find the equation and draw a diagram for the balance of payments curve. Determine the balance of payment situation under

- a.  $Y=1200, r = 2$
  - b.  $Y=1200, r = 4$
  - c.  $Y=1400, r = 2$
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 payment deficit, should the government use the fiscal or monetary policy to solve the problems? Explain and draw diagrams to illustrate your answer.