



## Problem sets 4: Open economy macroeconomics

EE312: Intermediate macroeconomics

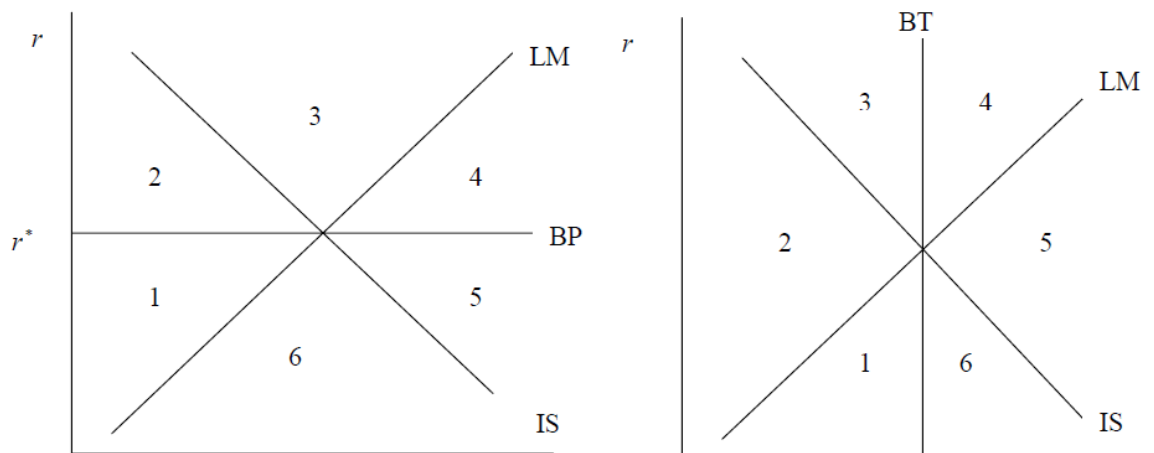
Semester 1/2018

Instructor: Dr. Kittichai Saelee

Due on August 28<sup>th</sup>, 2018 at the BE office. (before 3 pm)

---

- 1) Explain why BP is an upward sloping curve. Should the slope of BP be steeper or flatter under the income inelastic demand for imports?
- 2) How does the increase in world GDP affect the three curves developed under the IS-LM-BP model?
- 3) The IS-LM-BP model defines six regions, each corresponding to disequilibrium in the money market, goods market and/or the balance of payments. Identify and describe each of these when capital is perfectly mobile, and when capital is perfectly immobile.



- 4) Using the Mundell-Fleming model (IS-LM-BP under perfect capital mobility) what will be the effects of the following
  - 4.1) A boom in stock market prices with fixed exchange rates
  - 4.2) An increase in ATM charges with floating exchange rates
  - 4.3) A reduction in money supply with fixed rates
  - 4.4) A reduction in government spending with floating exchange rates

5) In a floating exchange rate regime- to what extent does the effectiveness of fiscal policy depend on the degree of capital mobility?

(Hint: Analyze the effect of fiscal policy under two extreme cases: (i) when BP is vertical and (ii) when BP is a horizontal one.)

---

---