How does the degree of mobility affect the policy effectiveness?

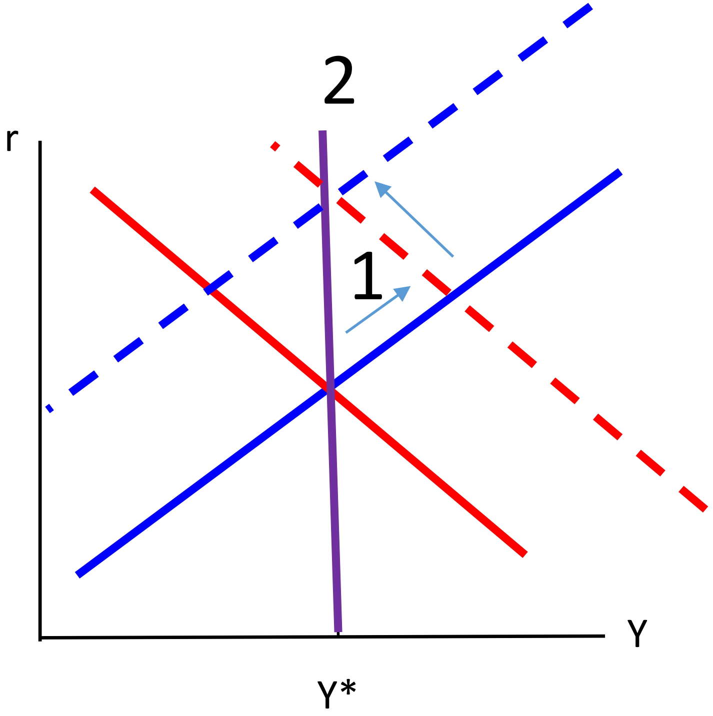
- Given the exchange rate regime, does the degree of capital mobility matters?

  - For fiscal policy, this turns out to be so!

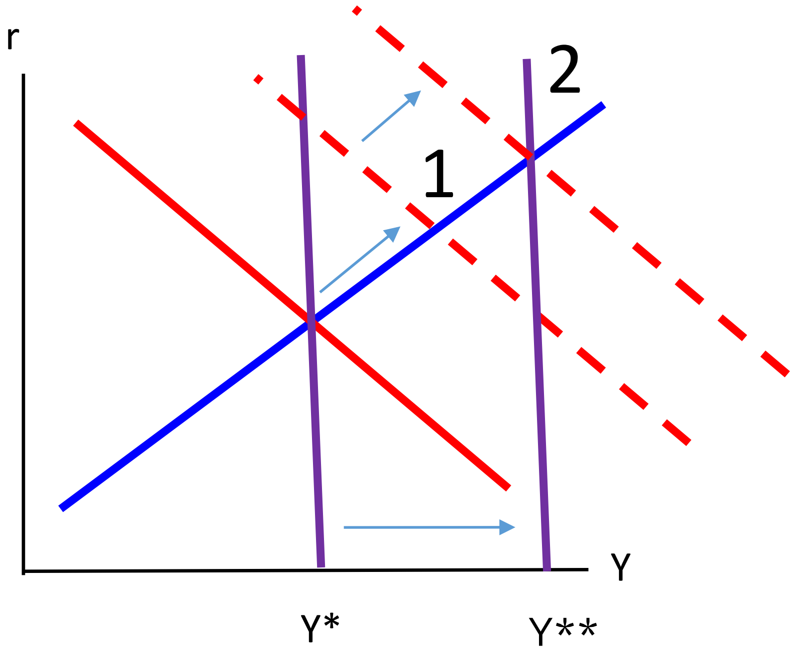
  - For monetary policy, this doesn't seem to matter; the choice of exchange rate matters most

Fiscal policy: Capital control

- Fiscal instruments: G, T
- Changes in G (or T) cause a shift in IS curve. (ex. expansionary fiscal policy)



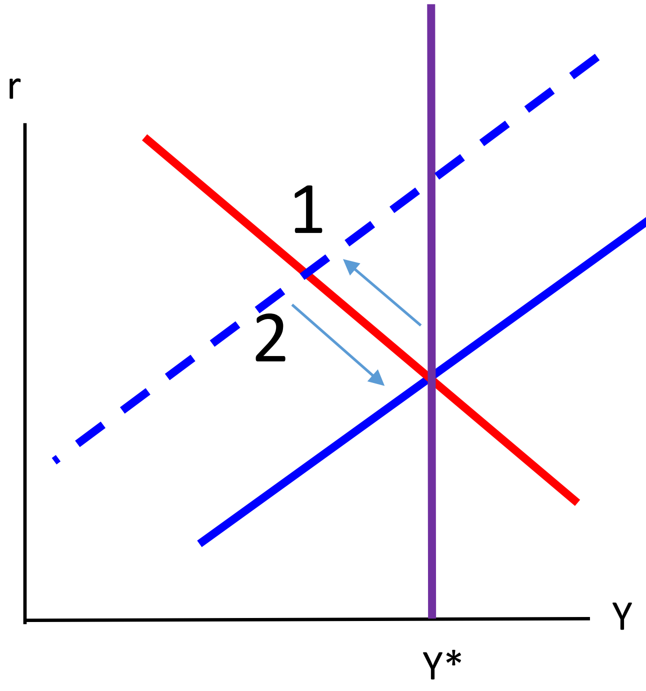
Fixed exchange rate



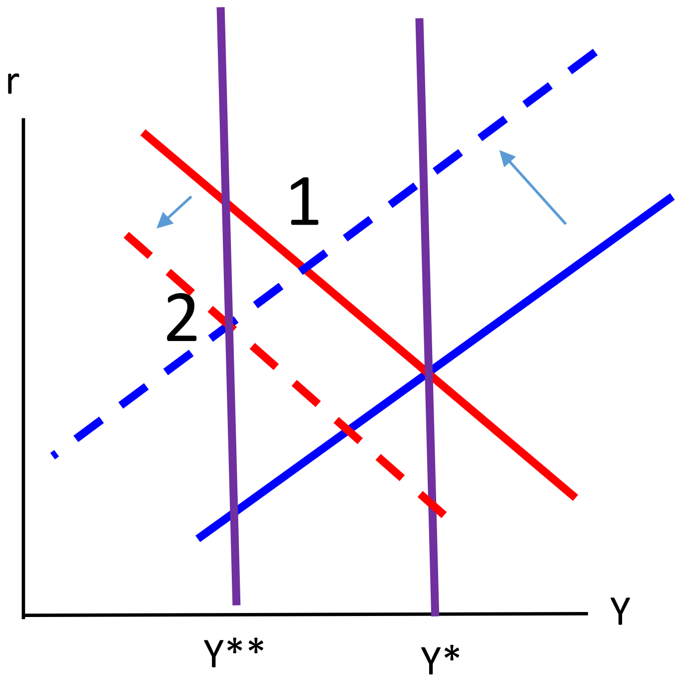
Flexible exchange rate

Monetary policy: Capital control

- Restrictive monetary policy



Fixed exchange rate



Flexible exchange rate