Eco365 International Monetary Economics
Quiz Winter 2023

Department of Economics, University of Toronto Mississauga

Instructor: Professor Gregory Gagnon

Aids: Non-programable Calculator

Instructions: Answer all questions.

Surname: LU **Given Name:** TingJia

Student Number: 1005913306

(6) 1. Assume that capital is imperfectly mobile and the exchange rate is fixed. Using the Fleming-Mundell model analyze the long run impact on domestic Y and i for the following shock. Also state the impact on domestic $X - M$.

Suppose the domestic central bank lowers its money supply.

(6) 2. Suppose the domestic money growth rate falls. Using Fisher's condition analyze short versus long run effects on the depreciation rate of the domestic currency. Expectations are adaptive.

1.

∵ $M^S\downarrow$, fixed rate, and imperfectly mobile

∴ LM shift left to LM'.

∴ i↑ to i', Y↓ to Y'.

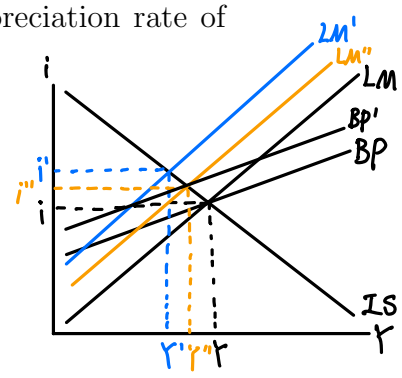
∵ i'>i*, ∴ capital inflow. Domestic currency apperiate, due to fixed $\bar{E}$. So CB need supply more to keep $\bar{E}$.

∵ it is imperfect, so i can't back to orignal.

∴ i↑ to i'', Y↓ to Y''.

BP up to BP'.

∴ X↓, NX↓.



2. ∵ Domestic $g_m \downarrow$, $\pi \downarrow$

∴ $\pi_1 > \pi_2 > \pi_3$

$\Delta S_1 = \pi_1 - \pi^* > \Delta S_2 = \pi_2 - \pi^* > \Delta S_3 = \pi_3 - \pi^*$

∴ The domestic depreciation rate is continous decline.