

For the questions below, include the IS/LM/FX diagram to illustrate the effects of the shock. All curves and equilibria points (e.g., point A and B) must be clearly labeled for full credit. Assume $MPC_F = 0$. You must state the effect of the shock on the following variables (increase, decrease, no change, or ambiguous): Y, i, E, C, I, CA .

Problem 1: Money Supply Increases

This is just a preliminary question, since we'll be moving around the money supply a lot in later questions. Anyway... show what happens when the money supply increases.

Problem 2: Government Spending Increases

- (a) The exchange rate is allowed to float and there is no stabilization policy.
- (b) The exchange rate is fixed and there is no stabilization policy.
- (c) The exchange rate is floating, the central bank uses monetary policy to stabilize Y .

Problem 3: Consumer Confidence Decreases

- (a) The exchange rate is allowed to float and there is no stabilization policy.
- (b) The exchange rate is fixed and there is no stabilization policy.
- (c) The exchange rate is floating, the central bank uses monetary policy to stabilize Y .

Problem 4: Money Demand Increases

- (a) The exchange rate is allowed to float and there is no stabilization policy.
- (b) The exchange rate is fixed and there is no stabilization policy.
- (c) The exchange rate is floating, the central bank uses monetary policy to stabilize Y .

Problem 5: Foreign Output Increases

- (a) The exchange rate is allowed to float and there is no stabilization policy.
- (b) The exchange rate is fixed and there is no stabilization policy.
- (c) The exchange rate is floating, the central bank uses monetary policy to stabilize Y .

Problem 6: Expected Depreciation

- (a) The exchange rate is allowed to float and there is no stabilization policy.
- (b) The exchange rate is fixed and there is no stabilization policy.
- (c) The exchange rate is floating, the central bank uses monetary policy to stabilize Y .