Problem 1. Using the IS-LM-FX model, illustrate what happens when the foreign country increases the money supply. Compare outcomes when home has a floating exchange rate versus a fixed exchange rate.

Problem 2. Home's currency is the peso and trades at 1 peso per dollar. Home has external assets of $320 billion, all of which are denominated in dollars. It has external liabilities of $800 billion, 90% of which are denominated in dollars.

(a) What is home's external wealth? Is home a net creditor or a net debtor?

(b) If the peso depreciates 1.2 pesos per dollar, what is the change in Home's external wealth in pesos?

Problem 3. Considering a symmetry-integration diagram, countries that face ____________ shocks are more likely to benefit from a fixed exchange rate regime, whereas countries that face ____________ shocks are less likely to benefit from fixing their currencies with each other.

(a) symmetric; asymmetric

(b) asymmetric; symmetric

(c) symmetric; symmetric

(d) asymmetric; asymmetric

Problem 4. Many countries experiencing high and rising inflation, or even hyperinflation, will adopt a fixed exchange rate regime. The potential costs and benefits of a fixed exchange rate regime in this case include a(n) ____________ in fiscal discipline, a ____________ of seigniorage, and a ____________ of expected future inflation.

(a) increase; gain; decrease

(b) increase; loss; decrease

(c) decrease; gain; decrease

(d) decrease; loss; decrease