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 to 1.2 pesos per dollar, what is the change in Home's external wealth in pesos?

Problem 3 (Sample Final Question 4). Use the symmetry-integration diagram to explore the evolution of international monetary regimes from 1870 to 1939, during the rise and fall of the gold standard.

(a) From 1870 to 1913, world trade flows doubled in size relative to GDP, from about 10% to 20%. Many economic historians think this was driven by exogenous declines in transaction costs, some of which were caused by changes in transport technology. How would you depict this shift for a pair of countries in the symmetry-integration diagram that started off just below the FIX line in 1870?

(b) From 1913 to 1939, world trade flows collapsed, falling in half relative to GDP, from about 20% back to 10%. Many economic historians think this was driven by exogenous increases in transaction costs from rising transport costs and increases in tariffs and quotas. How would you depict this shift for a pair of countries in the symmetry-integration diagram that started off above the FIX line in 1913?

(c) Explain why an increase in country-specific shocks might have undermined commitment to the gold standard.

(d) Explain why an increase in democracy might have undermined commitment to the gold standard.

(e) Explain why growth of world output relative to the supply of gold might have undermined commitment to the gold standard.

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