

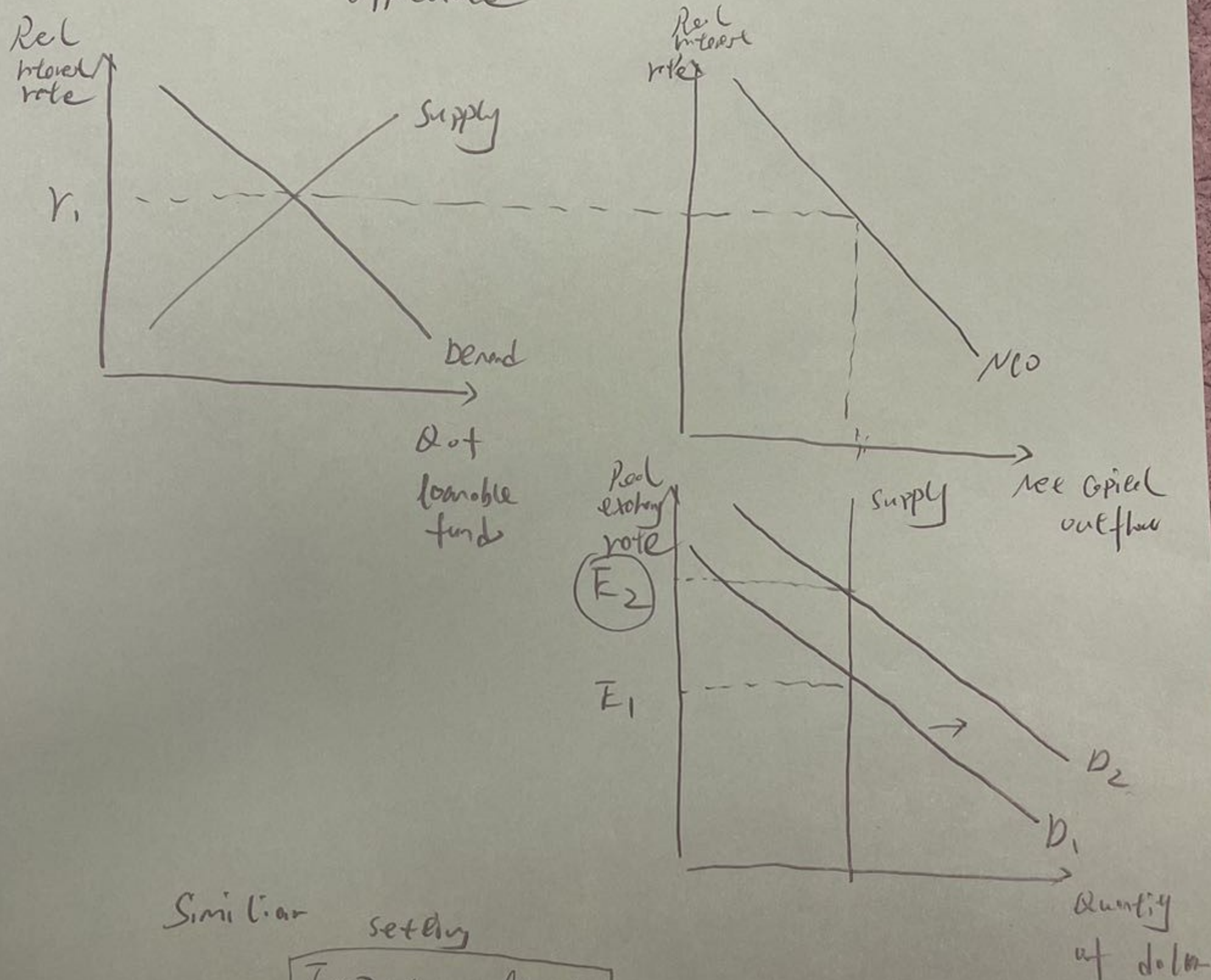
Qa.

Import ↓ \Rightarrow $NX \uparrow$

\Rightarrow The only curve that shifts is the NX curve in the market for foreign currency exchange.

\Rightarrow Since there is no impact on NCO , the policy doesn't impact any other market

\Rightarrow This will only cause the real exchange rate to appreciate



Similar setting

Import quota

Some trade policy

②

③

Qb:

European financial risk \uparrow

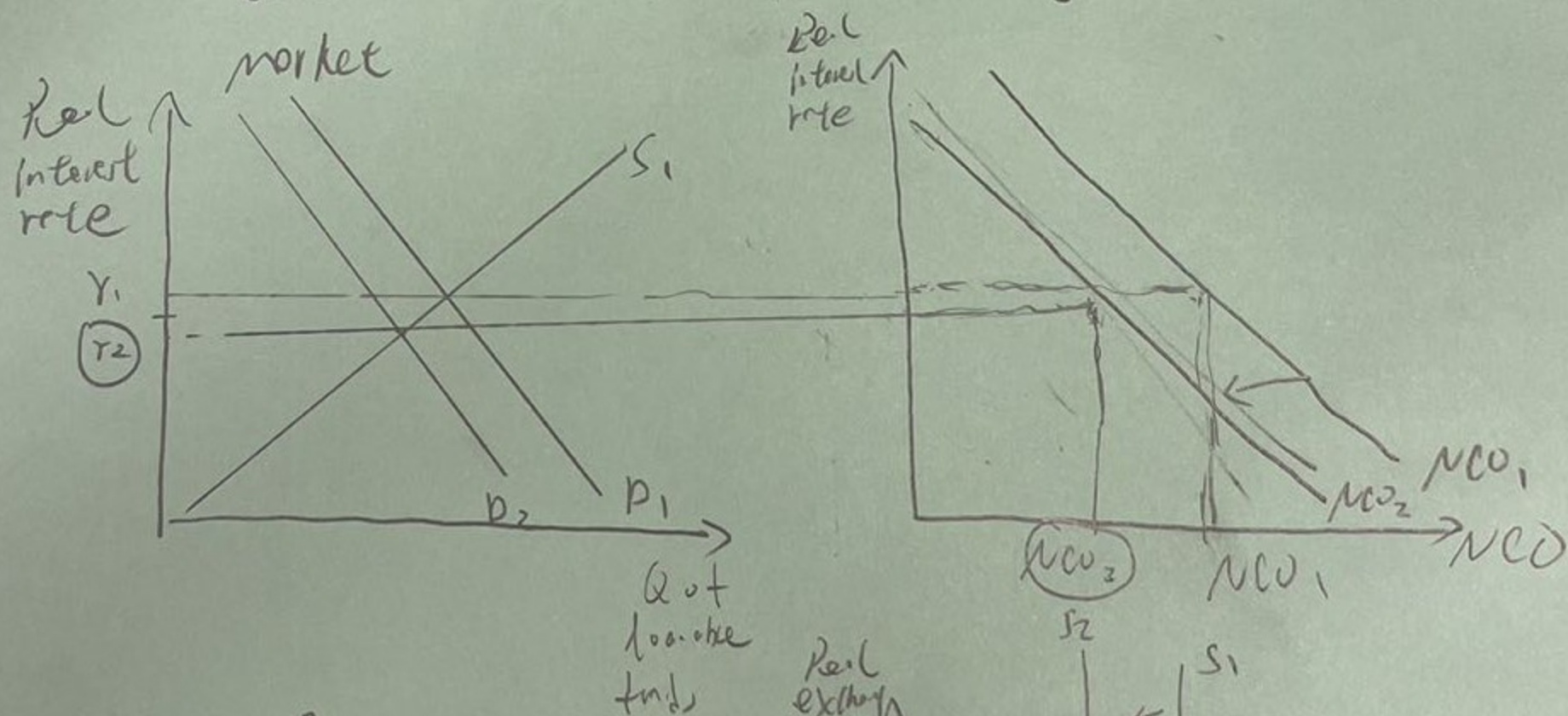
\Rightarrow less willing for domestic to purchase foreign asset

\Rightarrow NCO \downarrow

- The market for loanable funds and foreign currency exchange may change at the same time.

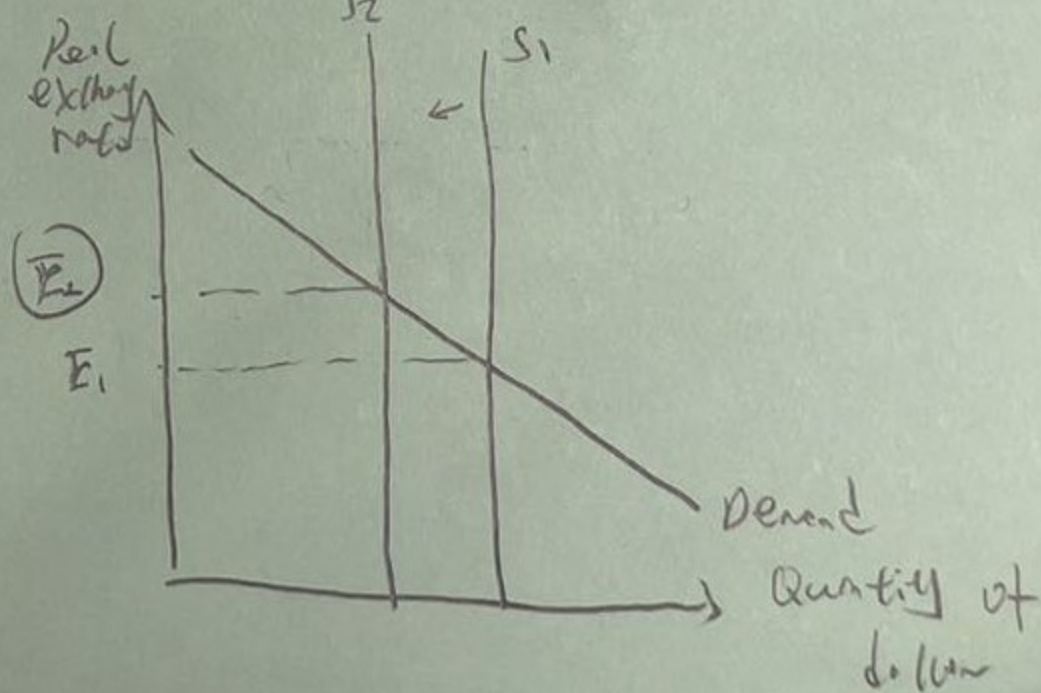
(1) The decrease in NCO cause the demand to decrease in the market for loanable funds.

(2) The decrease in NCO cause supply to decrease in the foreign currency exchange



Real Exchange rate \uparrow

Real interest rate \downarrow



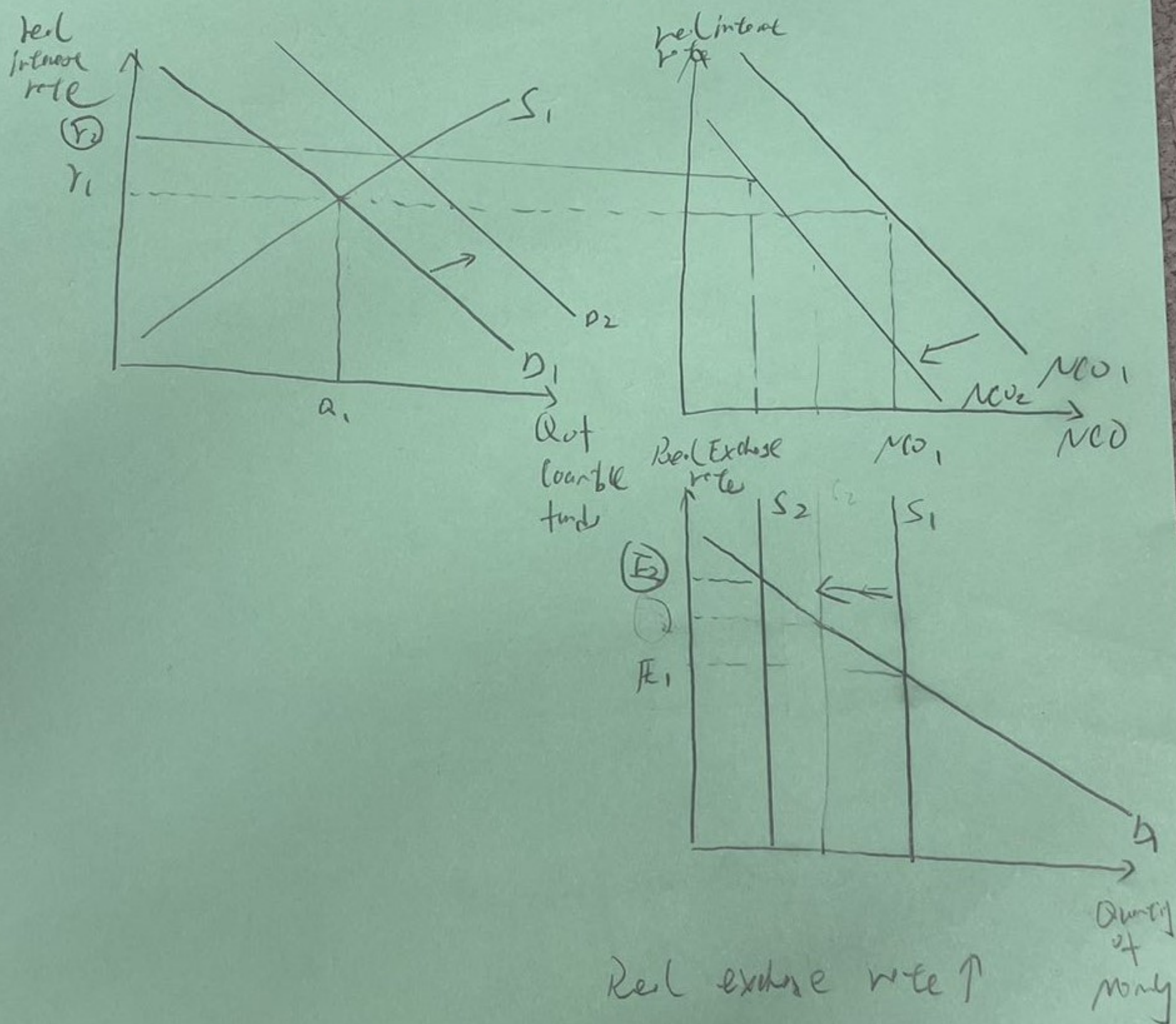
Qc: (I) Tax on returns earned on foreign investment
 \Rightarrow less willing for domestic consumer to purchase of foreign Asset

$\Rightarrow NCO \downarrow$

(II) Expected profit for manufacturers \uparrow

\Rightarrow interest \uparrow

\Rightarrow D shift to right.



Real exchange rate \uparrow
 Real interest rate \uparrow