EC 208: Open Economy Macroeconomics

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Problem Set 3 (all answers given in class/slides)

Answer the following.

(1) Explain the different types of exchange rate regimes.

(2) Explain the ways a central bank directly and indirectly can control money supply

(3) What is domestic credit? How is it calculated?

(4) Why does the classical/monetarist supply curve correspond to a long-term outlook?

(5) What are economic mechanisms that can lead to price stickiness?

(6) Under fixed exchange rate regime the monetary policy is exogenous. True or False? Explain.

(7) Explain how the slope of IS curve changes if investment demand become more sensitive to domestic interest rates.

(8) Explain how the slope of IS curve changes if imports become more sensitive to domestic income level.

(9) Under Monetary Model, a positive shock to money supply under flexible exchange rate regime causes more inflation if the elasticity of demand for imports with respect to domestic income is higher. True or False? Explain.

(10) Redo (10) with fixed exchange rate regime

(11) Explain how the slope of LM curve changes if demand for money becomes more elastic with respect to interest rates

(12) Under Monetary Model, a positive shock to foreign price level under flexible exchange rates causes more inflation if demand for money becomes more elastic with respect to income. True or False? Explain.

(14) Redo (13) with fixed exchange rate regime.

(15) What are the items in a Central Bank Balance Sheet? How can the money supply be obtained from a Central Bank Balance Sheet?

(16) Explain the difference between a crawled peg system and a target zone

(17) Derive the labor supply under i) Monetarist/Neoclassical ii) Extreme Keynesian iii) New Keynesian frameworks.

(18) Discuss the effectiveness of sterilization under fixed exchange rate regime when AS is positively sloped.

(19) Show how inflation is imported under fixed rate regime in a monetarist framework using equations.

(20) Monetary Economics as an Exchange Rate Theory: Explain how relative real incomes and monetary policies and income elasticities of money demand between two countries affect exchange rates between those countries under monetary framework. Use China, US and Turkey as examples.