

EC 208: Open Economy Macroeconomics  
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**Problem Set 4 (some answers will be provided in PS and in class)**

- (1) Explain the overshooting effect in financial markets where an underlying asset is traded under following scenarios.
  - i) FED announces an interest rate hike
  - ii) OPEC announces limits to OIL production
  - iii) TCMB announces an interest rate cut
  - iv) Australia, Russia, China South Africa together announce new gold mines and improved mining technologies.
  
- (2) Draw the Impulse-Responses for  $Current\ Account(CA), Capital\ Account(CPA), S_t, r_t, y, t, P_t$  after an expansionary fiscal shock by Turkish Government under fixed rates using the M-F model
  
- (3) Analyze the final, impact and adjustment phase of a contractionary fiscal shock by Turkish Government under floating rates using the Dornbusch model. Use, IS-LM, AS-AD, PPP, and UIRP ( as introduced by Dornbusch) graphs. Draw the Impulse-Response functions for  $\bar{S}, S_t, r_t, y, t, P_t$
  
- (4) Draw the Impulse-Response functions for,  $CA, CPA, S_t, r_t, y, t, P_t$  in Turkey after Fed announcement of an interest rate hike using the M-F model
  
- (5) Draw the Impulse-Response functions for,  $CA, CPA, S_t, r_t, y, t, P_t$  n Turkey after Fed report of an increase in US inflation when TCMB is implementing a floating exchange rate regime using the M-F model.
  
- (6) Draw the Impulse-Response functions for,  $\bar{S}, S_t, r_t, y, t, P_t$  in Turkey after Fed reports of an increase in US inflation when TCMB is implementing a floating exchange rate regime using the Dornbusch model.