

Assignment 6 (Optional)

Total Marks: 70

Part A True/ False/ Uncertain Questions 70 Marks

Explain why the following statements are True, False, or Uncertain according to economic principles. Use diagrams and / or numerical examples where appropriate. Unsupported answers will receive no marks. It is the explanation that is important.

Each question is worth 10 marks.

A1.

Under the Bretton Woods System, an individual country (other than the United States) with underemployment and excessive current account deficit could achieve both internal balance and external balance only by implementing expansionary fiscal policy.
[Diagrams required]

A2.

Under a fixed exchange rate system, Home economy is forced to import Foreign inflation. [Diagrams required]

A3.

In a two-large-country world with flexible exchange rates, a permanent monetary expansion by Home increases output of both Home and Foreign in the short run.

A4.

Home output falls more under a floating rate than under a fixed rate in response to an adverse temporary export demand shock. [Diagrams required]

A5.

An economy is more vulnerable to the instability in the domestic money market under a fixed rate than under a floating rate. [Diagrams required]

A6.

In a two-large-country world, governments can achieve macroeconomic outcomes that are better for both countries if they choose macroeconomic policies cooperatively.

A7.

In an open economy IS-LM model, a permanent increase in domestic money supply causes a rise in domestic equilibrium interest rate and output, and results into a depreciation of domestic currency.