

Assignment 4 (OPTIONAL)

Total Marks: 30

Part A True/ False/ Uncertain Questions 20 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.

A1. [10 Marks]

Both the temporary and permanent expansionary fiscal policy raises the current account balance. [Diagrams required]

A2. [10 marks]

Under a fixed exchange rate regime, the expectation of future devaluation leads to a balance of payments crisis. [Diagrams required]

Part B

Analytical Questions

10 Marks

B1. [10 marks]

Imagine the economy is at a point on the AA-DD diagram which is below both the DD schedule and the AA schedule. Explain what will happen next.