

Final Exam  
Economics 461. International Monetary Economics  
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- Write all answers in blue books. Make sure your name is on the front of each blue book.
- Carefully read the instructions for each section.
- The weight of each answer in your grade is proportional to the time indicated.
- The times given for the various sections sum to 90 minutes. You may have until 2:00 to complete the exam.

Section I (25 minutes)

Evaluate **five** of the following six statements. Indicate whether the statement is true or false and **briefly explain why**.

1. China's current account surplus is entirely the result of Chinese exchange rate policy.
2. If internet technology results in across-the-board productivity improvements for the U.S. economy, we should expect to see long-run real depreciation of the dollar.
3. The DD curve slopes up because volume effects are bigger than value effects.
4. Both fixed and flexible exchange rate systems provide "automatic stabilizers," but for different kinds of economic shocks.
5. "Current account crowding out" limits the effect of expansionary monetary policy.
6. The Central Bank can support an overvalued currency for a while, but not forever.

Section II (15 minutes)

From the accompanying list, select two of the articles that were presented by students this term. For each of your selected articles, write three sentences summarizing: (1) the main question addressed by the article, (2) what kind of analysis or evidence was presented by the authors, and (3) their main conclusion.

Section III (30 minutes)

Because the U.S. and global economies are now deeply in recession, Congress hopes to have a stimulus bill ready for President Obama's signature when he is sworn in January 20, 2009. He has indicated that stimulus may include tax cuts and government investment spending on highways, energy and other infrastructure. Use **diagrams and complete verbal explanations** to answer the following questions about such as stimulus package.

1. Using the DD-AA model, explain the likely effect of this policy on U.S. output and the exchange rate. How would the policy's effect depend on public perceptions of its permanence? How would the policy affect the U.S. current account?
2. Using a DD-AA model diagram for the "rest of the world", show and explain how the new policy would be transmitted abroad. Be sure to explain the different channels through which the effects would be transmitted.
3. How would the effect on foreign economies differ if the world operated under a fixed exchange rate system?

Section IV (20 minutes)

Developing countries sometimes use a fixed exchange rate system as a means to fight domestic inflation. Use foreign exchange/money market model or DD/AA model **diagrams and complete verbal explanations** to answer the following questions.

1. If a high-inflation country operates under floating exchange rates, how would you expect its currency to behave over time? Why?
2. How could a fixed exchange rate system help the country to fight inflation? What are the likely short-run effects on the current account and national output?