

Name:
Section No.:
SSN:
GSI:

Economics 102
Introduction to Macroeconomics
Prof. Alan Deardorff

Final Exam - Answers

Form 1

April 27, 1998

Part 1: Multiple Choice (60 points, 2 each)

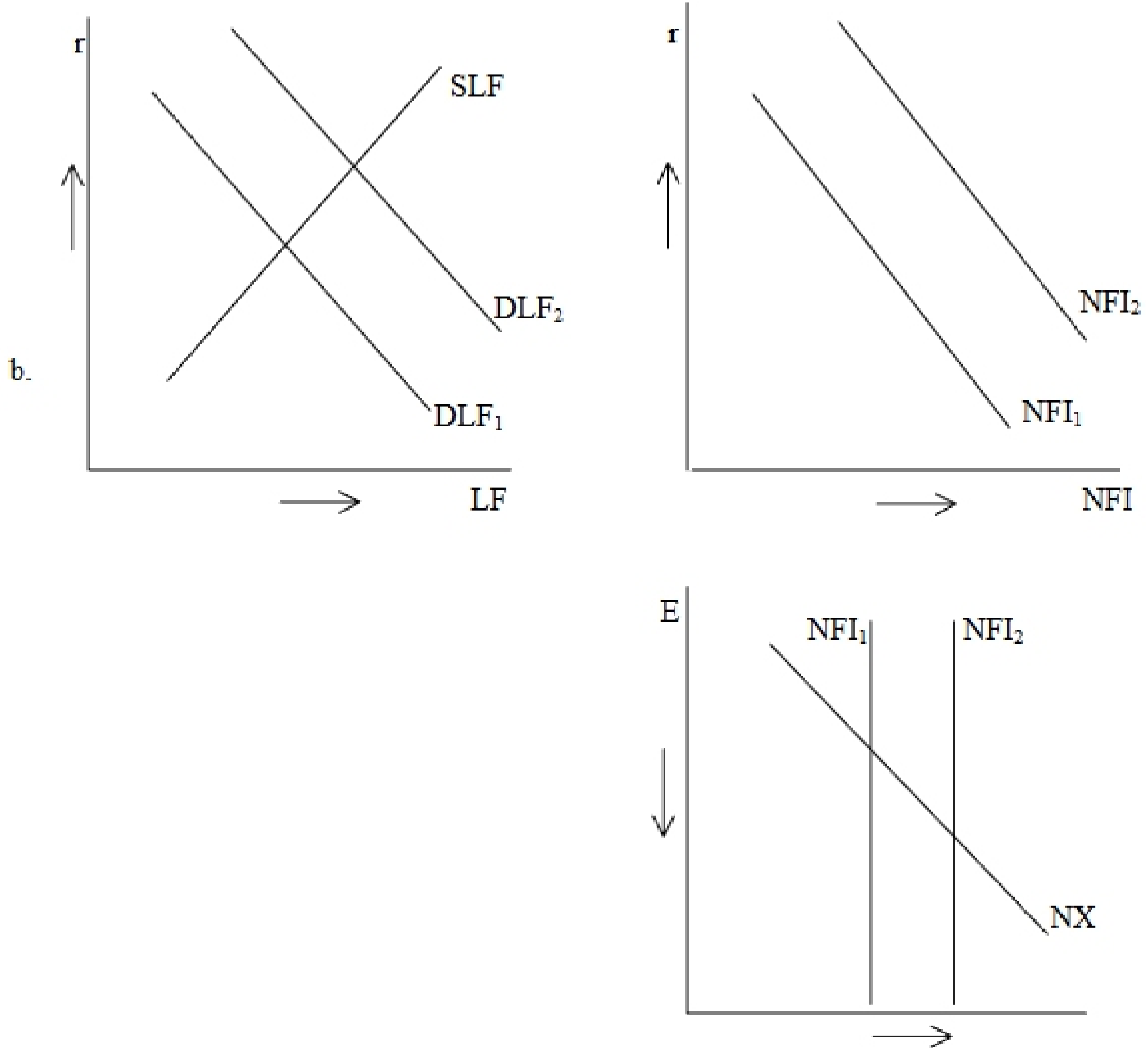
- | | |
|-------|-------|
| 1. c | 16. e |
| 2. d | 17. d |
| 3. b | 18. c |
| 4. d | 19. e |
| 5. d | 20. c |
| 6. d | 21. d |
| 7. d | 22. a |
| 8. d | 23. b |
| 9. a | 24. b |
| 10. a | 25. e |
| 11. e | 26. b |
| 12. b | 27. d |
| 13. e | 28. c |
| 14. e | 29. b |
| 15. b | 30. d |

Part II: Short Answer (38 points)

1. (14 points) In this question you will analyze the long run effects of a change in international capital flows, assuming that there is no net effect on real output.

➔ There is a decrease in foreign demand for U.S. financial assets at any real interest rate.

a. (6 points) In the space provided below illustrate the effects of this event using the diagrams of Mankiw's Open Economy Model (including determination of the real interest rate and the real exchange rate). Make sure that you clearly label all axes, all curves, and the direction of change for all variables.



(8 points) Give the direction of change for each of the following variables:

- i. real interest rate increase
- ii. real exchange rate decrease (depreciate)
- iii. national savings increase
- iv. private savings increase
- v. domestic investment decrease
- vi. net foreign investment increase
- vii. net exports increase
- viii. consumption decrease