Universitat de Barcelona
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Macroeconomics - Group A8
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Open economy.

List 10 - The Mundell-Fleming model 2.

1. Which among the following causes a depreciation of the domestic currency?
   (a) An increase in the propensity to import.
   (b) An increase in the inflow of capital.
   (c) An increase in the interest rate.
   (d) A surplus in the trade balance.
2. If the exchange rate is fixed, what happens to the reserves of foreign currency in each of the following cases?
   (a) A decrease in imports.
   (b) A decrease in the inflow of capital.
   (c) An increase of the income level in the rest of the world.
   (d) A decrease of the price level in the rest of the world.
   (e) An increase of the world's interest rate.
3. If the exchange rate is flexible, what is the effect on the exchange rate of each of the following cases?
   (a) A decrease in the imports.
   (b) A decrease in the inflow of capital.
   (c) An increase of the income level in the rest of the world.
   (d) A decrease of the price level in the rest of the world.
   (e) An increase of the world's interest rate.
4. Which of the following statements is true under perfect capital mobility?

(a) Monetary policy cannot be expansionary with a flexible exchange rate.

(b) Monetary policy has a higher expansionary effect in the case of fixed exchange rate than in the case of flexible exchange rate.

(c) Fiscal policy has a higher expansionary effect in the case of fixed exchange rate than in the case of flexible exchange rate.

5. Consider an economy with perfect capital mobility, fixed prices, and a flexible exchange rate. Analyze the effects on production, interest rate, and net outflow of capital of a reduction in the tax rate.

6. Analyze the effects of a decrease in the tax rate when the exchange rate is fixed and there is perfect capital mobility.

7. What would be the effect on the income level and the interest rate of an increase in the world's interest rate when the exchange rate is flexbile and capital is perfectly moble?

8. Consider an economy with perfect capital mobility and fixed exchange rate. Suppose that the economy is experiencing a positive trade balance. Analyze the effects of an increase in the world's interest rate.

9. Consider an economy with imperfect capital mobility and flexible exchange rate. Suppose that agents start expecting a depreciation of the Dollar with respect to the Euro. How would the capital flows change? What would be the effects on income and domestic interest rate?