

Universitat de Barcelona
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Macroeconomics - Group A8
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List 13 - Open economy and AD-AS.

1. Consider an economy with a high level of unemployment, a flexible exchange rate regime, and perfect capital mobility. What would be the effect on the employment of this economy of an increase in the neighboring countries' money supply?
2. Brasil has a fixed exchange rate and perfect capital mobility. Nevertheless, given that its economy has not been too much affected by the financial crisis, its central bank has not followed as an expansionary monetary policy as the other developed countries. How do you expect its money supply, income, and current account?
3. The reunification of Germany in 1989 determined a considerable increase in government spending devoted to infrastructures. At the moment, Germany had free mobility of capital with the rest of EU countries and the German Mark was part of a framework of fixed exchange rates, the European Monetary System (EMS). Explain what might have been the effect of Germany's fiscal expansion on both Germany itself and the rest of the EU.
4. During the 1990-1992 period, Finland had economic difficulties due to the drop in the price of paper and paper matter, which constituted a relevant part of Finnish exports, and the fall of exports towards the former Soviet Union. This caused a deficit in the trade balance. Which policies would you suggest to improve on this situation? (Assume fixed exchange rates due to the EMS and perfect capital mobility.)
5. In an open economy with flexible exchange rates, which among monetary policy and fiscal policy would be more expansionary? Illustrate your reasoning by means of a graph.
6. Until 1973 the exchange rates were fixed in the international monetary system. Nevertheless, it was common opinion that monetary policy was not effective in controlling aggregate demand. Was that true? Explain why.

7. Is it possible to increase at the same time productivity, production, and employment? Explain why.
8. Suppose that, within a set of supply-side policies, the government tries to reduce the contribution to social security that the firms ought to pay. Explain what would be the effect on the level of income and employment.
9. Suppose that an economy is at its full employment level of income. Moreover, suppose that economic authorities cannot perfectly observe economic reality and that they want to follow expansionary policies. Explain the effect of these policies in this case.