Goods market in the open economy

Exercises

Economics II – Week 1

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Exercise 1:

Consider a country open to trade with the rest of the world in which exists only the goods market and prices are fixed.
What happens if the government of such a country decides to raise the taxation?
Explain economically and graphically.

Exercise 2:

Consider a world in which only two countries, alpha and omega, exist. Both countries are open to trade with the rest of the world and in both exists only the goods market and prices are fixed.
Due to good news about the future economic scenario, consumption in omega increases.
What does this imply for the equilibrium in the goods market of alpha?
Explain economically and graphically.

Exercise 3:

Beta is a country open to trade with the rest of the world in which exists only the goods market and prices are fixed.
The goods market of country Beta is in equilibrium but Beta's government runs a trade balance deficit. What would you do if you were the treasury minister of Beta in order to eliminate such a trade balance deficit? Which effects such an intervention would have on the goods market equilibrium?
Explain economically and graphically

Exercise 4:

Gamma is a country open to trade with the rest of the world in which exists only the goods market and prices are fixed.
The good market of country Gamma is in equilibrium and its trade balance is in parity. The government wants to stimulate the economy increasing output but, at the same time, does not want to generate a trade balance deficit. Which policy mix must it implement in order to reach its goal?