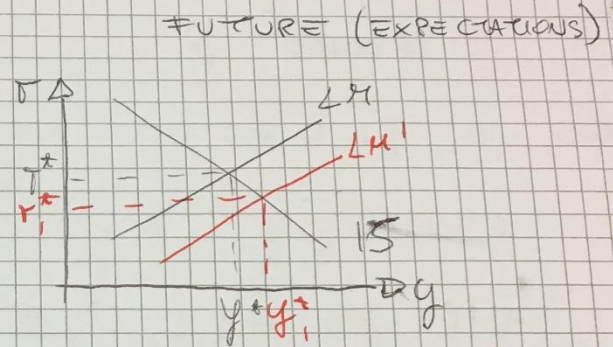
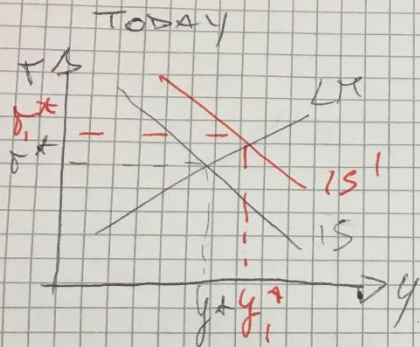


## SOLUTIONS OF MOCK EXAM 2

$$Q_1: IS: Y = A \left( \underset{+}{Y}, \underset{-}{r}, \underset{-}{M}, \underset{+}{y_{t+1}^e}, \underset{-}{r_{t+1}^e}, \underset{-}{r_{t+1}^e}, \underset{+}{x} \right) + G$$

$$LM: M^s = M^d \left( \underset{+}{Y}, \underset{-}{r} \right)$$

$$Q_t = f \left( \underset{+}{y_{t+1}^e}, \underset{-}{r_t}, \underset{-}{r_{t+1}^e} \right)$$



$$IS: \begin{matrix} r^e \downarrow \\ y^e \uparrow \end{matrix} \begin{matrix} I \uparrow \\ C \uparrow \end{matrix} \begin{matrix} Y \uparrow \\ Y \uparrow \end{matrix} \rightarrow Y \uparrow$$

$$LM: M^s \uparrow > M^d \uparrow \begin{matrix} PB \uparrow \\ r \downarrow \end{matrix}$$

$$IS: I \uparrow \begin{matrix} y^e \uparrow \\ Y \uparrow \end{matrix}$$

$$LM: M^d \uparrow > M^s \begin{matrix} PB \downarrow \\ r \uparrow \end{matrix}$$

$$Q_t: \begin{matrix} y_{t+1}^e \uparrow & Q_t \uparrow \\ r_{t+1}^e \downarrow & Q_t \uparrow \\ r_t \uparrow & Q_t \downarrow \end{matrix} \left. \vphantom{Q_t} \right\} \rightarrow \text{FUTURE EFFECTS PREVAIL} \quad Q_t \uparrow$$

Q2: PRICE OF REAL ESTATE ↓  
 HOUSING WEALTH ↓  
 ↓  
 TOTAL WEALTH ↓  
 ↓  
 CONSUMPTION ↓  
 ↓  
 INCOME ↓

Q3: IS:  $Y = C + I + G + NX(Y, Y^*, E)$

LM:  $M^s = M^d(Y, i)$

UIP:  $E = f(L, L^*, E^e)$

FIXED EXCHANGE RATES

IS:  $G ↓ Y ↓$

LM:  $M^d < M^s$   $PB ↑ i ↓$

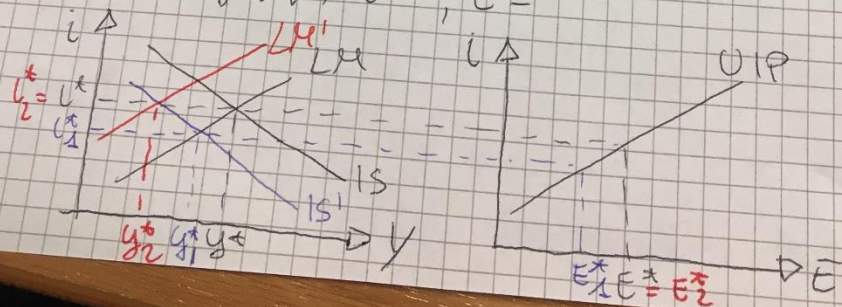
UIP:  $i ↓ E ↓$  ← THIS CANNOT HAPPEN.

LM:  $M^s ↓ < M^d$   $PB ↓ i ↑$  ← CENTRAL BANK INTERVENES TO RAISE INTEREST RATES RESTORING THE INITIAL LEVEL

IS:  $I ↓ Y ↓$

UIP:  $i ↑ E ↑$  ← RESTORED THE TARGET LEVEL

FINALLY:  $Y ↓↓, i =, E =$





Q4: IS:  $Y = A(y, T, r, y^e, T_{t+1}^e, T_{t+1}^e, x) + G$

$\begin{matrix} + & - & - & + & - & - & - & + \end{matrix}$

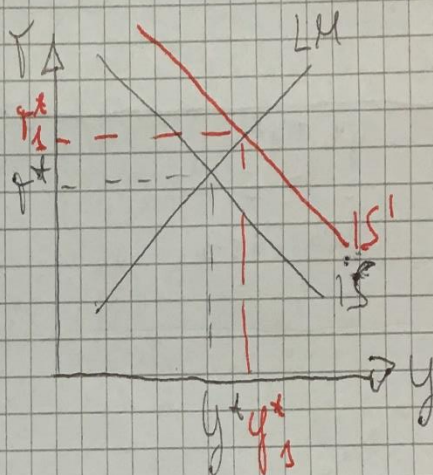
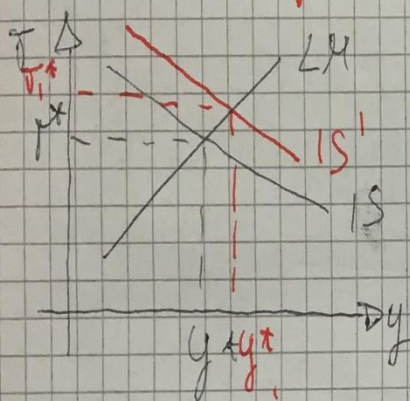
LM:  $M^s = M^d(y, r)$

$\begin{matrix} + & - \end{matrix}$

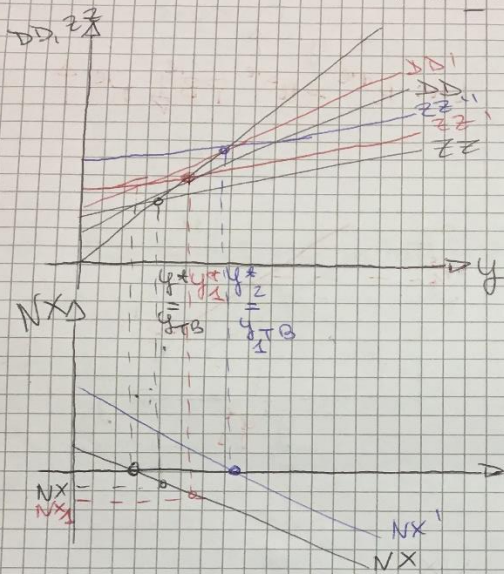
<p>TODAY</p> <p>IS: <math>y^{ie} \uparrow \rightarrow CA \uparrow \rightarrow y \uparrow</math> DIRECT</p> <p><math>(r^{ie} \uparrow \rightarrow I \downarrow \rightarrow y \downarrow)</math> INDIRECT</p> <p>PREVAILS THE DIRECT EFFECT!</p>	<p>FUTURE (EXPECTATIONS)</p> <p>IS: <math>y^{ie} \uparrow \rightarrow y \uparrow</math></p> <p>LM: <math>M^{d,e} &gt; M^{s,e} \rightarrow r^{ie} \uparrow</math></p>
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$y \uparrow$

LM:  $M^{d,e} \uparrow > M^s \rightarrow r \uparrow$



Q5: DD:  $y = C + I + G$   
 ZZ:  $y = C + I + G + NX$   
~~DD~~ NX:  $NX = f(y, y^*, \epsilon)$



$T \downarrow \rightarrow y \uparrow \rightarrow C \uparrow \rightarrow DD \uparrow \rightarrow y \uparrow$   
 $ZZ \uparrow \rightarrow y \uparrow$

if  $y \uparrow$   $NX \downarrow \rightarrow$  so we can say the statement is false. A tax cut increases trade balance deficit

if we apply an exchange rate policy consisting in a real depreciation we can achieve simultaneously an income increase and a deficit reduction. let's see how

if  $\epsilon \downarrow$   $NX \uparrow$  so  $ZZ \uparrow$   $y \uparrow$

