Original

Examination	**International Macroeconomics and Finance**
Semester:	**Summer 1999**
Examiner:	**Prof. Dr. Gerhard Schwödiauer**
The following aids can be used:	**None**

Examination Questions

1. Assume that the linear-logarithmic IS-curve of a Mundell-Fleming model of a small open economy is given by

$$y = \alpha_1 (e - p) + \alpha_2 g - \alpha_3 t - \alpha_4 i ,$$

where g stands for government (and any other autonomous) expenditure, t for taxes, e – p for the real exchange rate, and i for the domestic rate of interest.

   a) Sketch how this equation is derived from the basic Keynesian output-absorption equation and interpret the α-parameters accordingly. Under which assumption will α_1 be positive?
   b) Add (with brief explanations) the other equations of the model (including the supply side!) in linear-logarithmic form assuming perfect international capital mobility.
   c) Analyze geometrically and algebraically the impact of an expansionary monetary policy under a regime of perfectly flexible exchange rates on domestic output and employment, the domestic price level, nominal and real exchange rates and the trade balance.

2. Respecify the model à la Dornbusch in order to answer once more the question put in the above problem 1 c).
   Comment on the differences between the Mundel-Fleming and the Dornbusch models.