Original

Examination:	**International Macroeconomics and Finance**
Semester:	**Winter 2001/02**
Examiner:	**Prof. Dr. G. Schwödiauer**
The following aids may be used:	**None!**

Examination Questions

1. Assume that the government of some "emerging economy" privatizes a formerly state-owned enterprise by selling 51% of its equity stock to a foreign investor who pays cash in dollars. Analyze all conceivable consequences of this move for the domestic balance of payments, domestic real investment and savings, output and employment, alternatively under regimes of fixed and flexible exchange rates.

2. Specify a simple log-linear Mundell-Fleming model of a small open economy in a
   version (a) with perfect international capital mobility,
   and a
   version (b) without any international capital transactions.
   Analyze quantitatively the consequences of some fiscal expansion under a regime of fixed exchange rates for both versions. Use also graphical illustrations.

3. In a world with high international mobility and freely floating exchange rates, "overshooting" responses of exchange rate to policy and other kinds of shocks are observed. What is meant by "overshooting"? Why may it be a problem? How does the so called Dornbusch-model account for this phenomenon? Is it true that in the Dornbusch-model regressive exchange rate expectations are necessary to produce overshooting? Sketch a simple Dornbusch-model to clear up these questions.