STUDY QUESTIONS ON LECTURE SLIDES #14

This purpose of these study questions is to help you learn the material in Lecture Slides #14.

1. For a small open economy as described in Lecture Slides #14, explain why a decrease in government spending leads to an increase in the trade balance (i.e., to a trade surplus if the trade balance is zero before the decrease in government spending) and to a decrease in the exchange rate.

2. In a small open economy, explain why a housing slump leading to a decrease in autonomous consumption (see the second problem on Problem Set #9) has the same effects on the trade balance and the exchange rate as a decrease in government spending.