ℹ Front page

Department of Economics

Examination paper for SØK 2009 International Macroeconomics

Examination date: 21.12.2023

Examination time (from-to): 15:00-19:00

Permitted examination support material: C (only calculator and official formulary, no hand-written sheets or notes)

Academic contact during examination: Inga Heiland
Phone: 46590973

Academic contact present at the exam location: NO

OTHER INFORMATION

Get an overview of the question set before you start answering the questions.

Instructions

- you can answer in Norwegian or in English
- when using graphs, make sure you label all the curves and all the axes
- keep your verbal answers as short as possible, but answer in complete sentences
- if you use the following notation or other notation that corresponds to the lecture or the book, you don’t need to define the variables in your graphs or explanations

Money market equilibrium:

$$M^s = PL(R, Y)$$

Foreign exchange market equilibrium:

$$R = R^* + \frac{E^e - E}{E}$$

Goods market equilibrium:

$$Y = C(Y - T) + G + I + CA(EP^*/P, Y - T)$$

Read the questions carefully and make your own assumptions. If a question is unclear/vague, make your own assumptions and specify them in your answer. The academic person is only contacted in case of errors or insufficiencies in the question set. Address an invigilator if you suspect errors or insufficiencies. Write down the question in advance.

Hand drawings: To answer tasks **[2,4,7]** you may want to use the drawing tablet for calculations/drawings. Other questions must be answered directly in Inspera. Instead of the drawing tablet you can also draw on paper. Please note that you must stick to one of drawing modes (either tablet or paper) throughout the exam.

File upload: 15 minutes are added for file upload. The time is included in the time shown at the top left of the test, and the time is reserved for file upload.

Weighting: The number of points you can earn per question is given in brackets. The total number of points is 90.

Notifications: If there is a need to send a message to the candidates during the exam (e.g. if there is an error in the question set), this will be done by sending a notification in Inspera. A dialogue box will appear. You can re-read the notification by clicking the bell icon in the top right-hand corner of the screen.

Withdrawing from the exam: If you become ill or wish to submit a blank test/withdraw from the exam for another reason, go to the menu in the top right-hand corner and click “Submit blank”. This cannot be undone, even if the test is still open.

Access to your answers: After the exam, you can find your answers in the archive in Inspera. Be aware that it may take a working day until any hand-written material is available in the archive.

1 Equilibrium in the foreign exchange market [10]

a) Explain why the expected return to foreign assets, measured in domestic currency, is increasing in the depreciation rate.

b) Assume that the dollar and euro interest rates equal 1% and 4%, respectively. The current dollar per euro exchange rate is 1 and is expected to equal .99 in a year. Based on this, should you invest in dollar or euro? Explain why in one sentence.

Fill in your answer here

Format

Words: 0

Maximum marks: 10

2 Joint equilibrium in the asset markets and the goods market [20]

a) Explain how the equilibrium in the money market and in the foreign exchange market generate a relationship between output and the exchange rate (known as the AA-curve). Give economic intuition behind the slope of the AA-curve.

b) Explain how the equilibrium in the goods market generates another relationship between output and the exchange rate (known as the DD-curve). Give economic intuition behind the slope of the DD-curve.

Note: you may (but don't have to) use a graph to support your answer. If you do, you can upload it in the next step.

Fill in your answer here

Format

Words: 0

Maximum marks: 20

3 File upload

If you drew a figure to answer this question, upload it here (as PDF)

Upload your file here. Maximum one file.

The following file types are allowed: **.pdf** Maximum file size is **50 GB**

Select file to upload

Maximum marks: 0

4 Stabilisation policies [20]

Suppose a temporary shock has pushed the country into a recession and policymakers and central bankers want to restore full employment. Would you recommend fiscal policy or monetary policy if

a) the initial shock was a negative shock to global demand for domestic output ? (Hint: in the AA-DD model, this initial shock shifts the DD curve left)

b) the initial shock was a positive shock to the demand for money ? (Hint: in the AA-DD model, this initial shock shifts the AA curve down)

Note: Explain your recommendations. You may (but don't have to) use the AA-DD model to illustrate the effects of the two policies graphically. If you do, you can upload the graph in the next step.

Fill in your answer here

Format

Words: 0

Maximum marks: 20

5 File upload

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Select file to upload

Maximum marks: 0

6 Purchasing power parity [10]

Under purchasing power parity, long-run nominal exchange rates are determined by differences in the price levels across countries only. However, in the data this prediction only holds in special cases. What else can explain long-run changes in the nominal exchange rate?

Fill in your answer here

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Words: 0

Maximum marks: 10

7 Open-economy monetary trilemma [10]

What is the Open-economy monetary trilemma? Using the trilemma, explain which desirable policy tool was sacrificed under the Gold Standard. Were there positive aspects of the Gold Standard as well?

Note: You may (but don't have to) use a drawing in your answer. If you do, you can upload the graph in the next step.

Fill in your answer here

Format

Words: 0

Maximum marks: 10

8 File upload

If you drew a figure to answer this question, upload it here (as PDF)

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All file types are allowed. Maximum file size is **50 GB**

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Maximum marks: 0

9 Capital flight and currency crisis [10]

Explain how an expected change in the fixed exchange rate can trigger a currency crisis (i.e., a situation where the central bank rapidly loses foreign reserves). Is it an expected devaluation or revaluation that can cause such a crisis ?

Fill in your answer here

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Words: 0

Maximum marks: 10

10 Current account [10]

Are large current account deficits problematic? What about surpluses? Discuss.

Fill in your answer here

Format

Words: 0

Maximum marks: 10