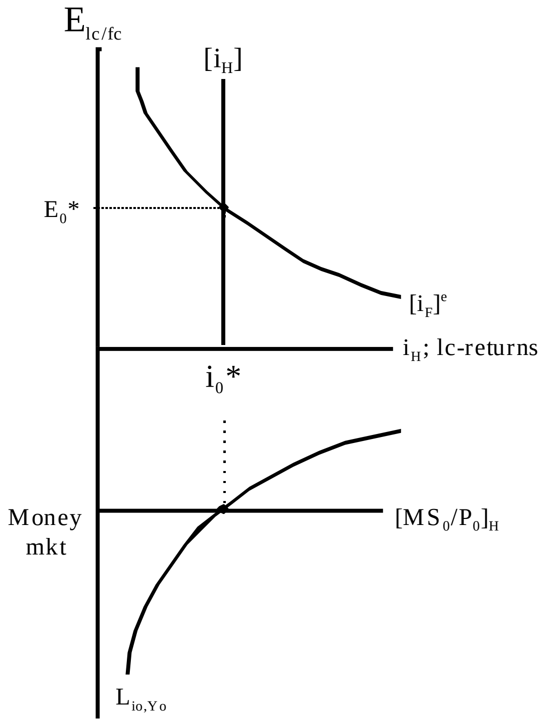
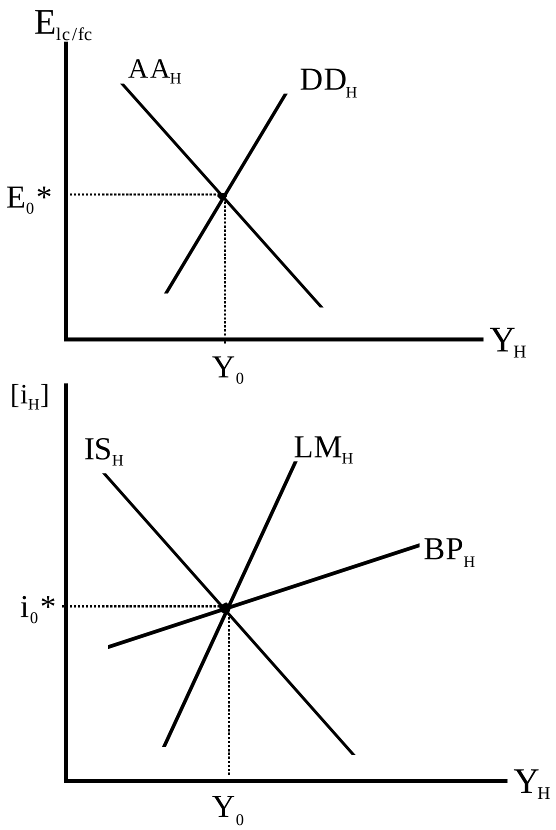
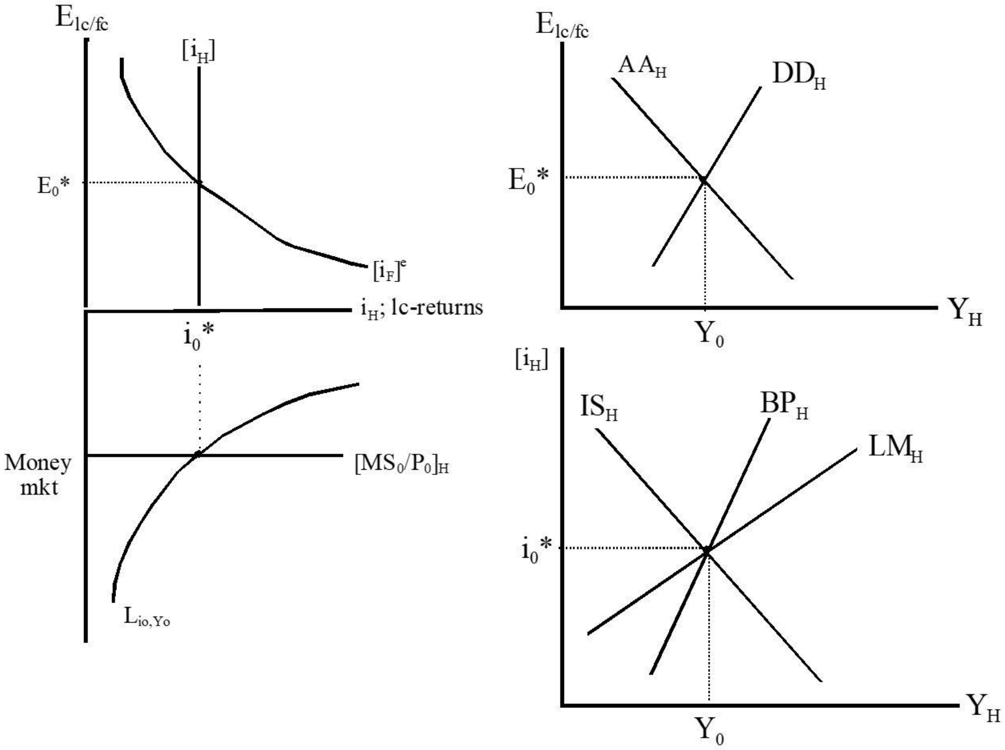
Answer sheet for exercise 2





Macroeconomic policy intervention: under relative capital mobility

How does the intervention affect general equilibrium? Explain the chain of causality with arrows in each market.			
	Chain of causality (use arrows, →↑↓ to explain):		
Goods market equilibrium			
Money market equilibrium			
BOP equilibrium			
How effective is the policy intervention?	Discuss in terms of the change (size and magnitude) of the change in the following macroeconomic variables:		
	ΔY	Δi	ΔE
Does government–central bank coordination matter for the result? Explain.			
Is the equilibrium stable in the short run? Explain.			
Would any changes in expectations to occur in the short run? Explain.			



Macroeconomic policy intervention: under relative capital immobility

<table>
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