1. All countries in the world simultaneously begin world-wide austerity. The policy is expected to be temporary.
   DD: $G$ down offsets effect of $R^*$ down (use IS-LM to see) shifting DD left. Fall in $Y^*$ also shifts DD left.
   AA: Fall in $R^*$ shifts AA down.
   XX: Fall in $Y^*$ shifts XX left.
   New equilibrium shows lower $Y$, and unchanged $E$ and current account.

2. The US and the rest of the world (ROW) collaborate on contractionary monetary policy.
   AA: $M$ falls and $R^*$ rises (use IS-LM to see this). IS-LM shows need $Y$ to fall to restore money market equilibrium so fall in $M$ dominates shifting AA left
   DD: Rise in $R^*$ and fall in $Y^*$ shift DD left
   XX: Fall in $Y^*$ shifts XX left
   New equilibrium shows lower $Y$, and unchanged $E$ and current account

3. Home agents become optimistic expecting higher future productivity and the accompanying higher income.
   DD: $Y_f$ up and $A_e$ up increase demand shifting DD right
   q graph: cannot tell what happens to $E_e$, so try leaving it unchanged with no other changes, output rises, exchange rate falls and CA has deficit
   In LR, $P$ falls shifting DD and XX right and AA right. Fall in $I$ could shift DD left and we cannot tell which dominates. We are not sure, but we could have a long-run with $E$ unchanged, validating the hypothesis that $E_e$ is unchanged.

4. China enters a recession.
   Decrease in $Y^*$ shifts XX and DD vertically up by same amount. Equilibrium with exchange rate higher, output lower, and CA deficit

5. The US raises current government spending, keeping future government spending unchanged (temporary increase) and planning to pay for the increased current spending by raising taxes next period after the election.
   The increase in G dominates the fall in C due to taxes since the consumer will spread the effect of the tax increase over both periods of life. The DD curve shifts right. Output increases, the exchange rate falls, and the current account moves into deficit.