1. Consider an exogenous transitory shift in taste away from US goods. Use the simple AA-DD model to compare the short-run effects of the shock on output under fixed and flexible exchange rates? Explain why one effect is larger than the other.

2. Use the simple AA-DD model to determine whether a transitory increase in government spending has a larger effect under fixed or flexible exchange rates. Explain.

3. Use the simple AA-DD model to show that sterilized exchange market intervention has no effect on the exchange rate in the standard case. Show and explain how this changes if assets are imperfect substitutes and there are risk premia.

4. Use the extended version of the AA-DD model to show that under fixed exchange rates, an increase in the expected future exchange rate will create a recession unless the country devalues the exchange rate.

5. Explain why a country on fixed exchange rates which is experiencing a recession is also likely to experience a self-fulfilling exchange rate crisis. Use the extended AA-DD model.