1. Now assume that the economy is open and that the world interest rate is determined on the world market instead of in the domestic economy. Use a two-country model with initial current accounts equal to zero. Use world savings - investment diagrams to answer the questions below. Question numbers refer to homework 2.
   a. How does an increase in domestic wealth affect the world equilibrium interest rate and the domestic current account? (Use your answer to question 3).
   b. How does an equal increase in current domestic taxes and government spending affect the world equilibrium interest rate and the domestic current account? (Use your answer to question 4).
   c. How does an increase in domestic total factor productivity affect the world equilibrium interest rate and the domestic current account? (Use your answer to question 5).

2. Now turn to consider a small open economy. How does each of the shocks above affect the domestic current account? Your answer will have three savings-investment graphs, one for each shock above.