1. Assume that a small open economy is pegging its exchange rate to a large economy’s currency. Analyze the short and long run effects of a currency devaluation on output, inflation, and the current account in the short and long run using the simple model.

2. Assume that the world has the Bretton Woods system of fixed exchange rates whereby all rates are pegged to the US dollar. Consider the effect of an expansion of the US money supply on output, inflation, and the current account in Germany in the short run and in the long run.

3. Are fixed or flexible exchange rates more successful for stabilizing output if most shocks are to the DD curve? Justify your answer with our model.

4. Draw AA, DD, XX curves for a flexible exchange rate economy that begins in recession with balanced trade. Prices are falling as the economy recovers from the recession. Analyze the effects of the withdrawal of fiscal stimulus during the recovery on the short-run value of output, the current account, the exchange rate, and inflation.

5. Again draw AA, DD, XX curves for a flexible exchange rate economy that begins in recession with balanced trade. Prices are falling as the economy recovers from the recession. Analyze the effects of monetary expansion during the recovery on the short-run value of output, the current account, the exchange rate, and inflation.