

## Problem set on Mundell-Fleming model

Using the Mundell-Fleming graph, describe how each of the following events affects output and/or the exchange rate under floating exchange rates, perfect capital mobility, static exchange-rate expectations, and fixed inflation expectations (for example, fixed price levels at home and abroad).

- 1) The foreign interest rate rises.
- 2) Taxes rise.
- 3) The demand for money at a given  $i$  and  $Y$  increases.
- 4) The country adopts protectionist policies, so that net exports at a given real exchange rate are higher than before.