Chair of International Economic Policy
Prof. Frank Westermann, Ph.D.

Exam in "International Finance"

Summer semester 2019

Total points: 60 points

For all questions: Please label all graphics thoroughly and completely describe the notation of all formulas and variables!

Question 1: Mundel-Fleming Model (20 points)

a) Write down the flow-identity in an open economy and mark the expected effects (+/-) for each variable. (Note: use "A" for absorbtion). (4 points)

b) Derive the slope of the IS-curve in an open economy using the total differential and illustrate graphically the effect of a change in the exchange rate. (6 points)

c) Show the effects of contractionary fiscal policy (reduced government expenditure) in the case of fixed exchange rates and explain the results. (6 points)

d) Name and criticise one crucial assumption in the Mundel-Fleming model. (4 points)

Question 2: Financial liberalisation and growth (21 points)

a) Illustrate graphically and explain verbally the convergence hypothesis in the Solow-Model. (6 points)

b) Give the Intuition of the “Financial Accelerator”- Model and write down the financial multiplier. (5 points)

c) Which signs do you expect for the coefficients β, γ, δ in the following Barro-Regression? Explain your answer in the context of the Solow-Model and the Financial Accelerator Model (from parts (a) and (b)).
(6 points)

$$\Delta Y_t = \alpha + \beta Y_{to} + \gamma X_t + \delta E_t + \varepsilon_t$$

With Y_{to} ≙ initial GDP per capita
X_t ≙ capital account liberalisation
E_t ≙ education

d) Discuss briefly two potential shortcomings of this regression. (4 points)

Aufgabe 3: Interest rate parity and exchange rate determination (19 points)

a) Name a key difference between the portfolio and the monetary model of the exchange rate. (2 points)

b) Use a suitable graph to explain the short- and long-run effects on an increased domestic money supply. Start from the equilibrium situation. (8 points)

c) Discuss a shortcoming of the Portfolio balanced model, that the monetary model is designed to overcome. (4 points)

d) Explain a way to test for the monetary model of the exchange rate. Give a concrete regression specification and discuss each variable/ parameter. (5 points)

The Chair of International Economic Policy wishes you best success!

Please sign the exam on the last page before handing it in.