



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 absorption). (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)

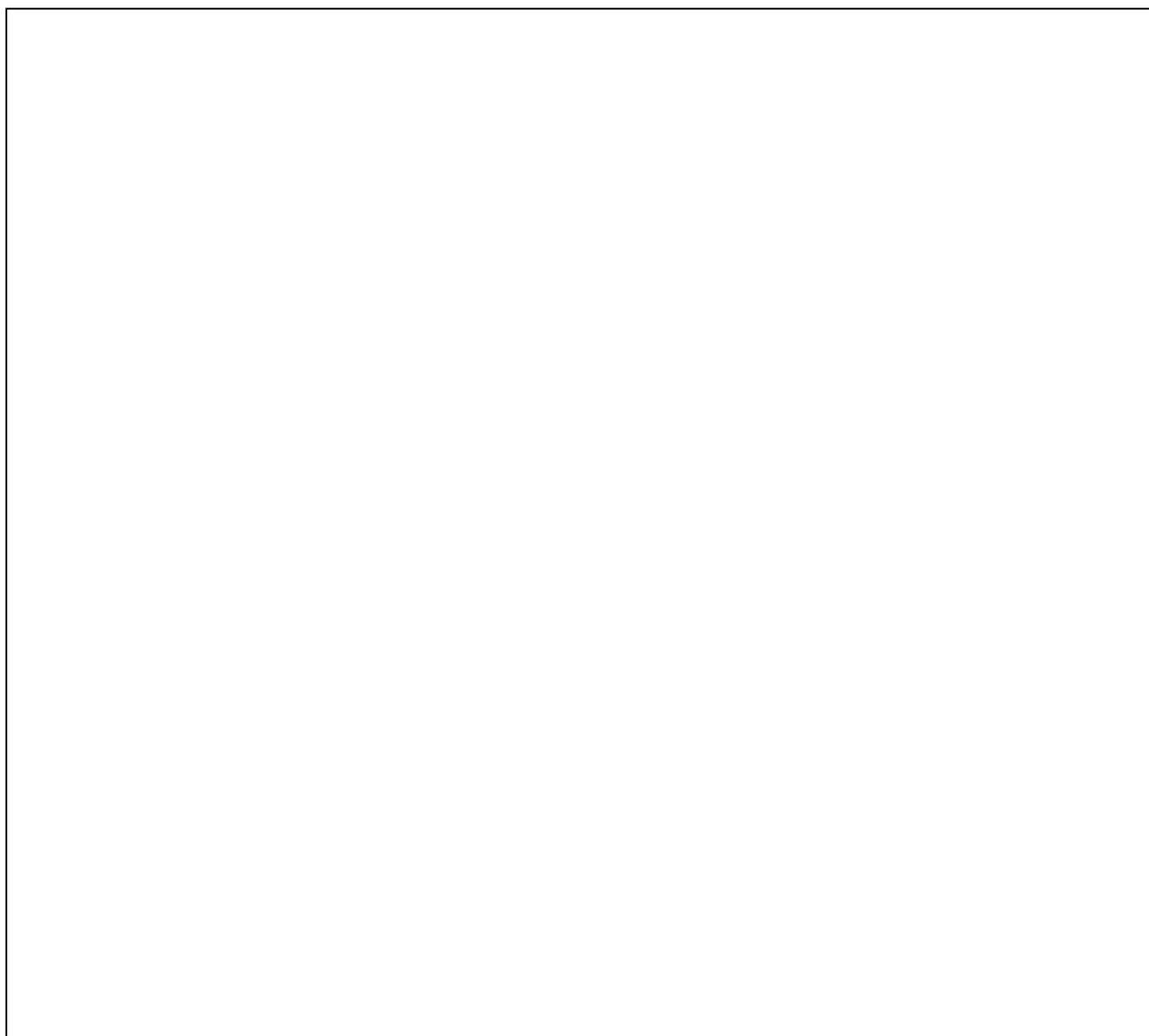
- c) Show the effects of contractionary fiscal policy (reduced government expenditure) in the case of fixed exchange rates and explain the results. (6 points)

- 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)

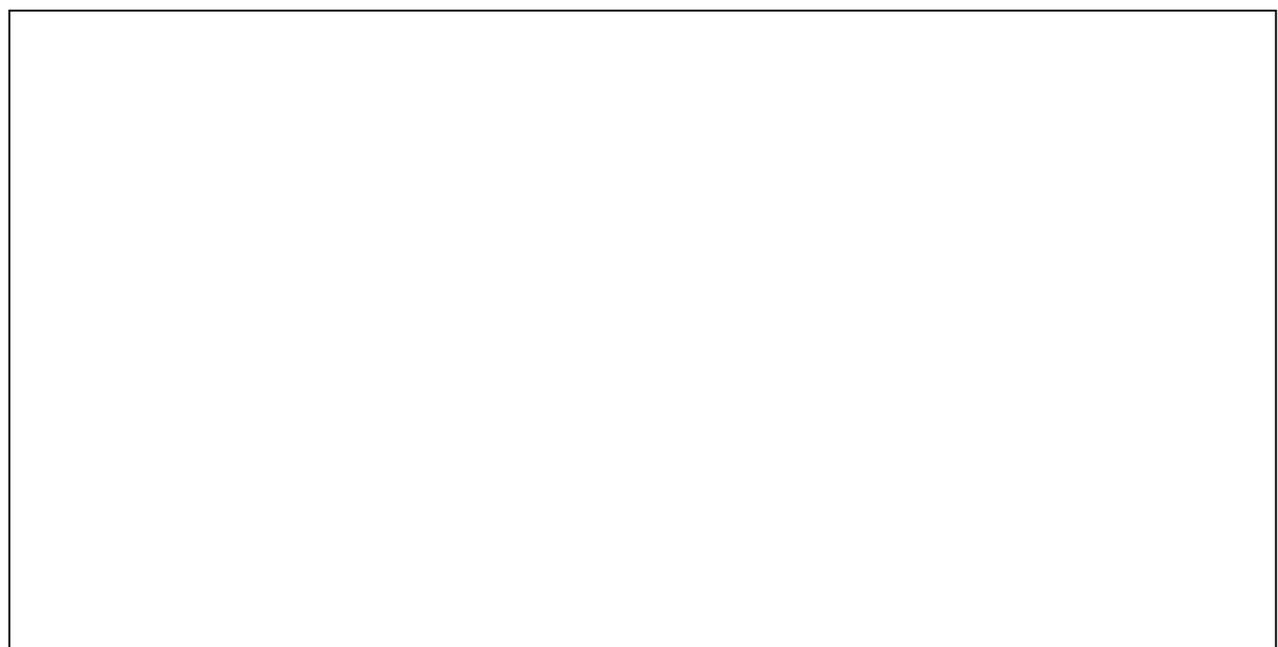
- c) Which signs do you expect for the coefficients β , γ , δ in the following Barro-Regression? Explain your answer in the context of the Solow-Model and the Financial Accelerator Model (from parts (a) and (b)). (6 points)

$$\Delta Y_t = \alpha + \beta Y_{t0} + \gamma X_t + \delta E_t + \varepsilon_t$$

With $Y_{t0} \hat{=}$ initial GDP per capita
 $X_t \hat{=}$ capital account liberalisation
 $E_t \hat{=}$ education



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

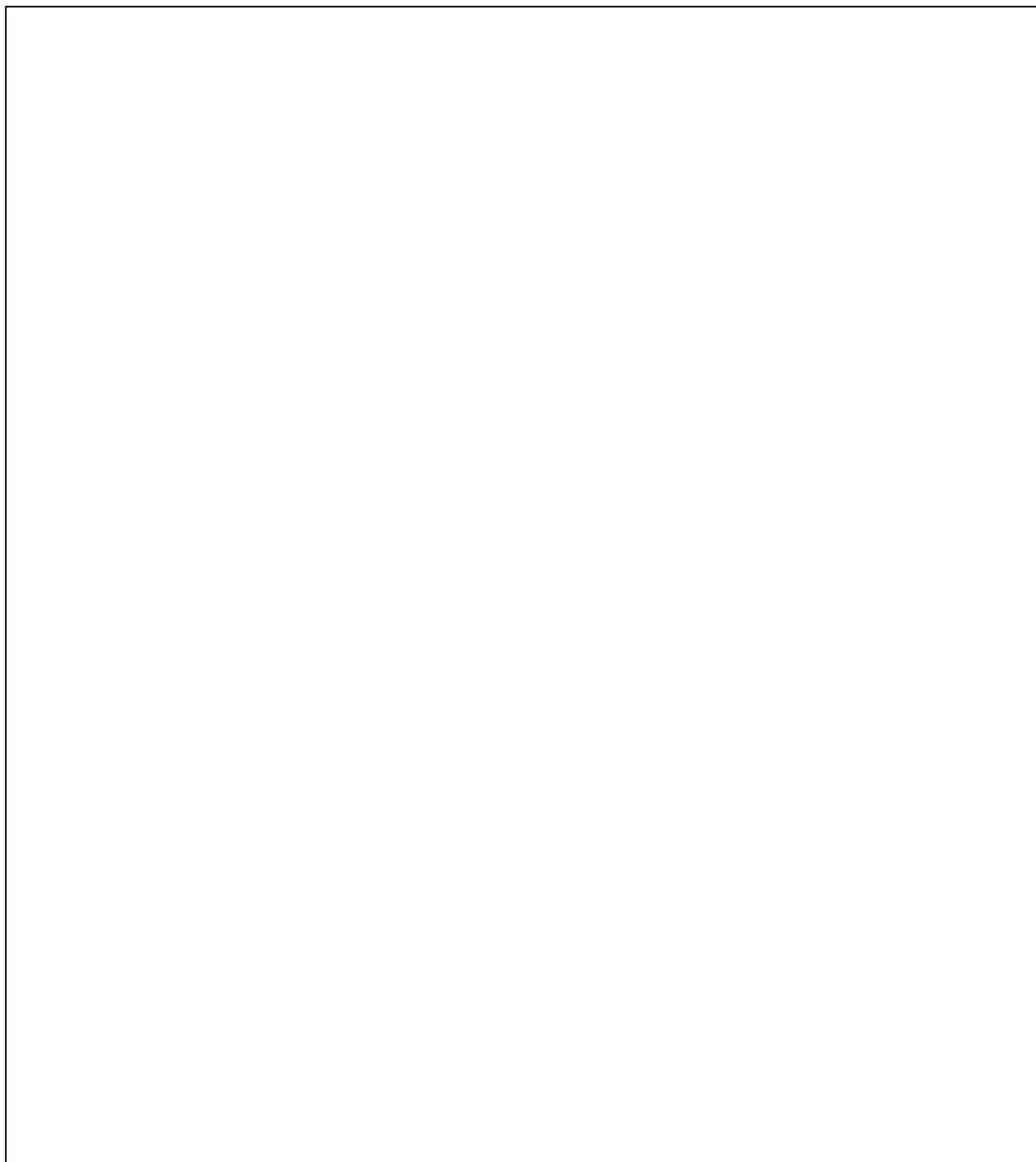


Aufgabe 3: Interest rate parity and exchange rate determination (19 points)

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)

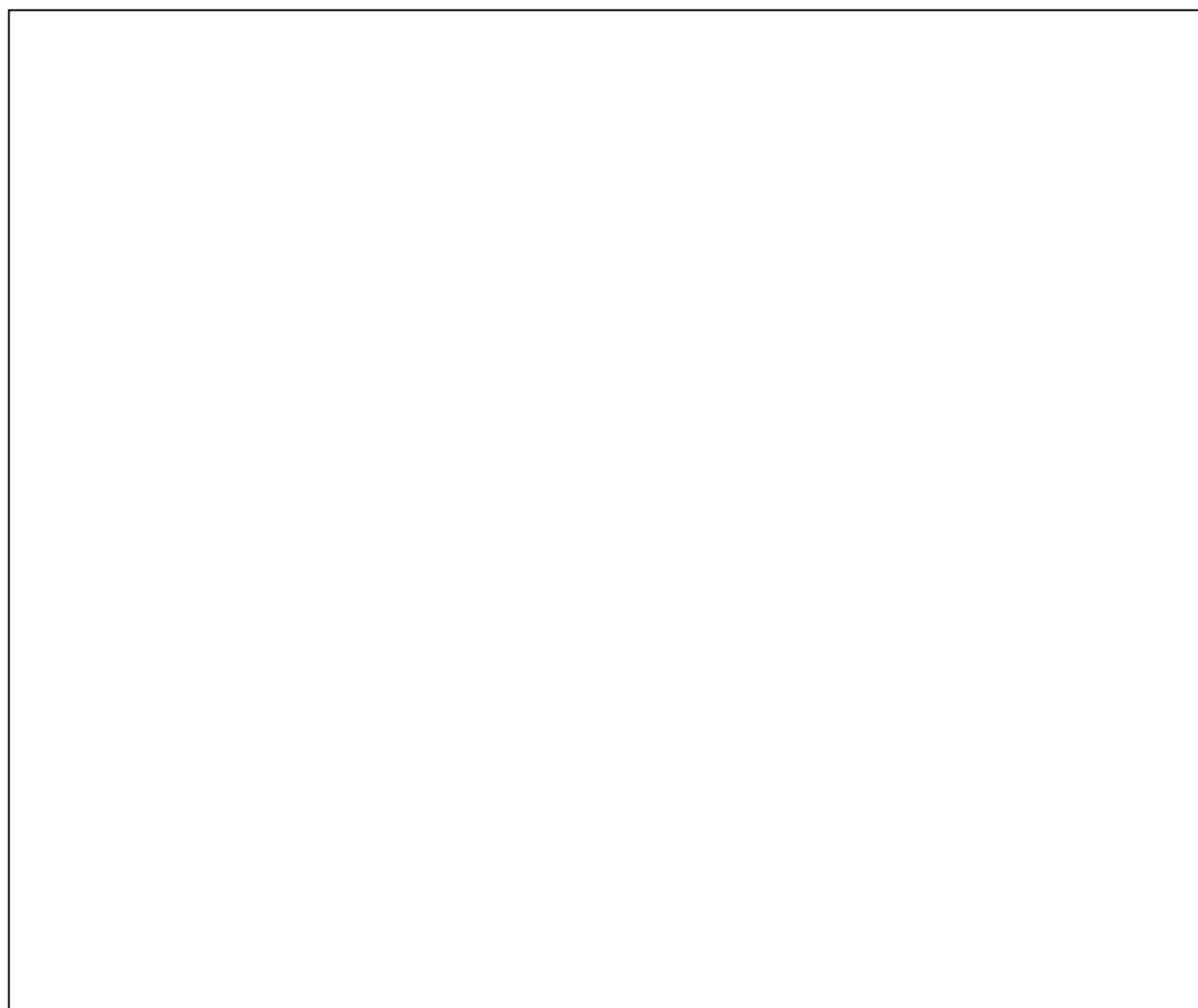


- c) Discuss a shortcoming of the Portfolio balanced model, that the monetary model is designed to overcome. (4 points)





- 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.