Masters Macroeconomics | Fall 2015
Short Questions | Due: 14 October

1. Is Slovakia a small, open economy with perfect capital mobility, such as the one discussed in the open-economy chapter? Explain.

2. Suppose for this problem that Slovakia is indeed a small open economy with perfect capital mobility and that it increases its government deficit. Would this likely result in an increase, decrease, or no change to its interest rate? Would this likely result in an increase, decrease, or no change to its trade deficit? Would this result in an increase, decrease, or no change in the amount of Slovakia's net capital inflow?

3. In what units is the U.S./Slovak nominal exchange rate measured? In what units is the U.S./Slovak real exchange rate measured? Explain the formula that relates the two.

4. Both Italy and Slovakia use the euro as currency. Is the U.S./Slovak nominal exchange rate necessarily the same as the U.S./Italy nominal exchange rate? Is the U.S./Slovak real exchange rate necessarily the same as the U.S./Italy real exchange rate? Explain.