Due date: To be collected at the beginning of class on Tuesday, December 8.

Note: The usual policy on cheating and plagiarism applies for this exercise.

1. This is a variation of problem 3 on page 554, 3/e.

   Consider a SOE in equilibrium.

   a. Start by showing the equilibrium diagrammatically, using (i) the output equilibrium diagram, and (ii) the monetary equilibrium diagram.
   
   b. Now suppose there is a temporary increase in government expenditures, determine the effects on aggregate output, absorption, the current account surplus, the nominal exchange rate, and the price level for this SOE and demonstrate the efforts in the diagrams for
      i. the SOE has a flexible exchange rate, and
      ii. the SOE has a fixed exchange rate.

2. Do problem 6 on page 554 of 3/e (2/e = ?).

   For each case (a) and (b) demonstrate your answers also diagrammatically using an output equilibrium and a monetary equilibrium diagrams.