

**Economics 100B Fall 2005 Final Exam Review Questions**  
**Chapter 15**  
**David Agrawal**

**Short Answer**

1. Assume the Law of One Price holds. If the exchange rate is 10 Euros per \$1, how much will an identical \$20,000 tuition fee be in Euros?
2. The exchange rate between U.S. dollars and Euros is 2 dollars/Euro. If the price of a Big Mac is \$6, what is the price of a Big Mac Euros? If the price of a Big Mac in Germany is 2 Euros, what is the price of a Big Mac in dollars? Does the Law of One Price hold? Why?
3. Suppose that the nominal exchange rate between the dollar and the Euro is 5 dollars/Euro. If the price of a bundle of goods is \$100 in the United States and the same bundle is 200 Euros in Germany, what is the real exchange rate between the U.S. and Germany?
4. What is a fixed exchange rate and how does it operate? What consequences does it have?

**Problems**

5. Given the following equations, derive an equation for the IS Curve and state the economic interpretation of the equation.

$$\frac{NX}{\bar{Y}} = \bar{a}_{NX} - \bar{b}_{NX}(R - \bar{r}) - \bar{n}Gap_t$$

$$\frac{C}{\bar{Y}} = \bar{a}_C$$

$$\frac{G}{\bar{Y}} = \bar{a}_G - \bar{d}Gap_t$$

$$\frac{I}{\bar{Y}} = \bar{a}_I - \bar{b}_I(R - \bar{r})$$

6. Suppose foreign interest rates are lowered. What happens to the U.S. economy through the full short-run model and what is the economic interpretation of what occurs? Be sure to include what happens to exchange rates and net exports.
7. What happens to the IS curve if there is a positive shock to  $\bar{b}_{NX}$ ?

**Thought Question**

8. At the end of the 19<sup>th</sup> century, America discovered a large reserve of silver. At the time, America was on the gold standard, the price of gold was pegged at \$20 per ounce, and America was in a period of deflation. William Jennings Bryan advocated for the U.S. to mint silver at \$1 per ounce (free silver) and called for the dollar to be set to bimetallic standard (silver and gold). Assume you are an economist for Bryan's Republican opposition; provide an economic logic opposing this policy given what we know about monetary policy, exchange rate regimes, inflation, and any other concepts covered in class. What about if you were an economist advocating Bryan's position?