

*Put your name and your group number on a blank sheet of paper, and then answer the following.*

Consider a country with perfectly competitive markets and free trade in goods, producing only two goods, which we shall call the export good and the import good. The country's savings rate is relatively high, compared to the rest of the world, and its market interest rate  $R$  is relatively low.

1. Use an intertemporal trade model, with current consumption on the horizontal axis, to show how allowing free trade in savings would affect the country's investment, future GDP, and consumption in the present and future.
2. Use a standard trade model, with the export good on the horizontal axis, to show how this transfer of savings affects the country's consumption of both goods in the present. How must this transfer affect its trade balance? Assume for simplicity that the transfer does not affect the terms of trade.
3. Use a supply and demand model for this country's foreign exchange (forex) market to explain how the transfer of savings would affect  $E$  and the amount of exports.
4. Use a standard trade model, with the export good on the horizontal axis, to show how a tariff on its import good would affect exports, imports, and the trade balance, assuming the country is too small to affect the terms of trade. For simplicity, assume there is no international transfer of savings.
5. Use a supply and demand model for this country's forex market to explain how the tariff would affect  $E$  and the amount of exports.