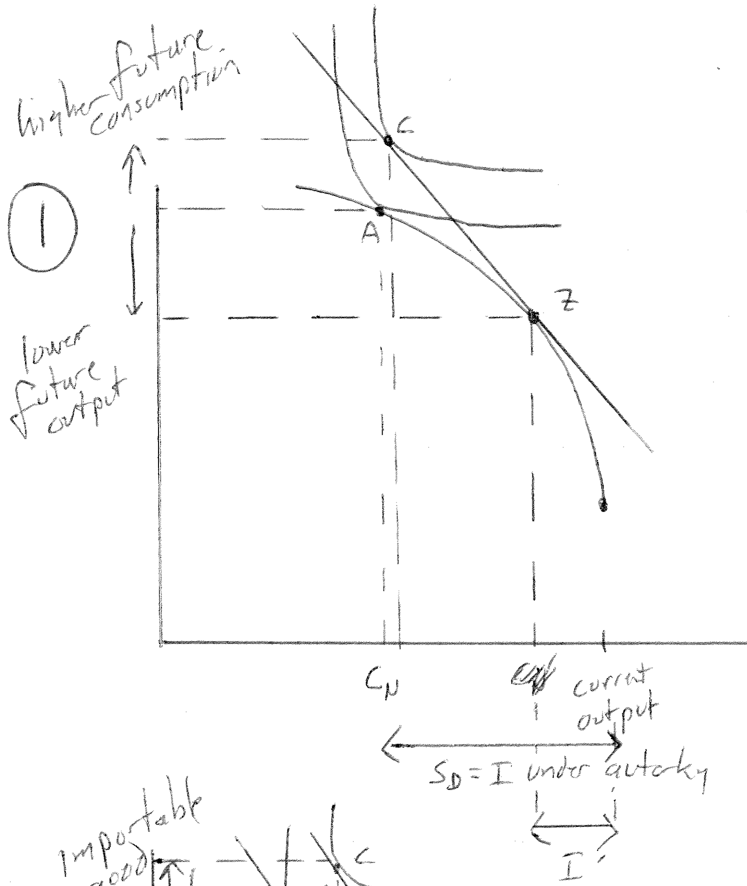
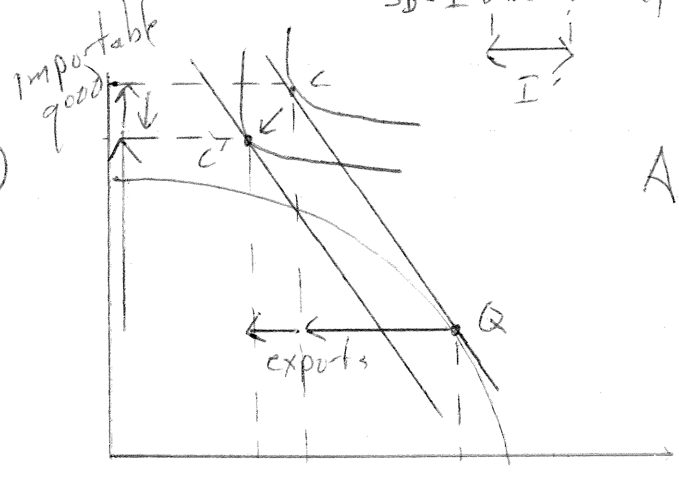
Econ 462 Quiz 4 Key

(1)



Free trade in savings leads to reduced investment at home, lower future GDP, and higher future consumption. Effect on current consumption is ambiguous.

(2)

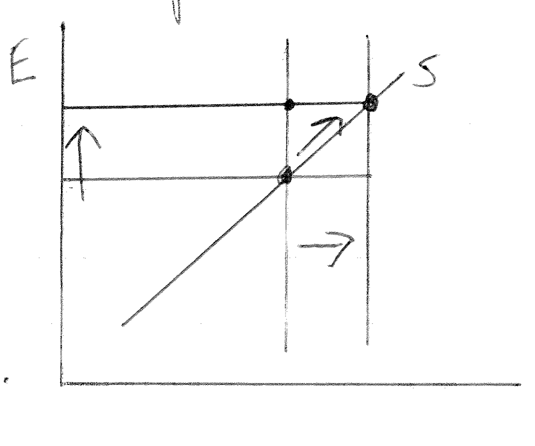


A transfer <u>out</u> leads to less consumption – of both goods if normal – and so exports rise and imports fall. Trade balance <u>rises</u>.

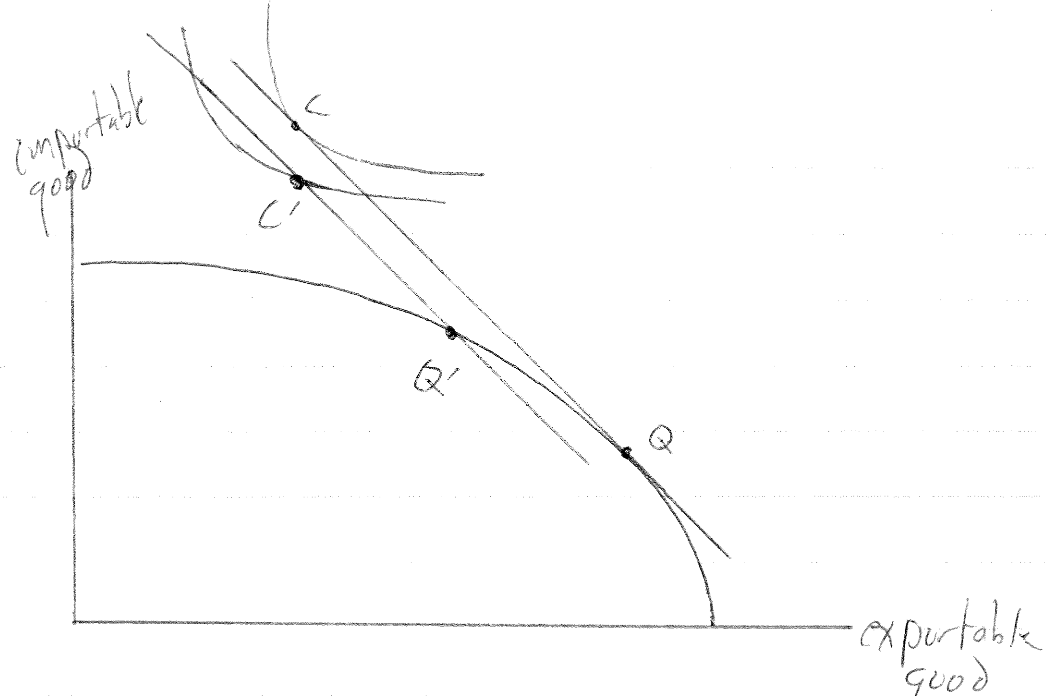
$NX\uparrow + S_F\downarrow = \overline{0}$

[FYI: The inconsistency between ambiguous C in (1) and a fall in C in (2) is easily explained by realizing C+I <u>falls</u> in (1), and in (2) I comes from what would otherwise be consumed.]

(3) Foreign savings outflow increases demand for Forex, E↑. This increases exports.

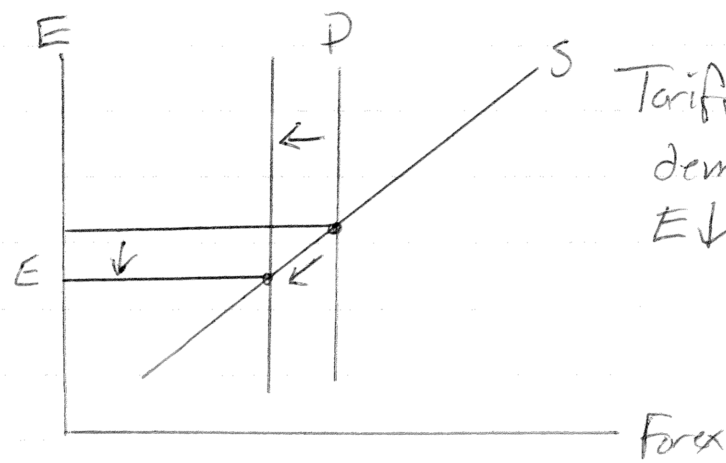


4



The tariff on imports means that $\frac{P_x}{P_y} < \frac{P_x^*}{P_y^*}$
so our MRT and MRS are flatter, no longer tangencies.
Q changes to Q', C to C'.
Imports fall, exports fall, no change in trade balance.

5



Tariff reduces import demand, demand for Forex too.
E↓. Exports ↓.