a) 
Expansionary Fiscal Policy makes \( Y \uparrow \), so \( L \uparrow , R \uparrow , EV \). 
\( NX \downarrow \).

b) If permanent, \( E^e \downarrow \), then \( E^f \) more, \( NX \downarrow \) more, and crowds out fixed policy. Little net change in \( Y , L , R \).

BOP surplus results from \( R \uparrow \), CB increases holdings of Forex reserves with new money.

d) Expansionary Monetary Policy makes \( R \uparrow \), so \( ET \). 
\( NX \uparrow \), so \( Y \uparrow \). 
This makes \( LT \), so \( RT \), \( EV \). 
Overshooting.

If permanent, \( E^c \uparrow \), so \( E \uparrow \) more. \( NXT \) and \( Y \uparrow \). 
\( R \) rises back to long-run value.
If) With fixed rates, $M^s \uparrow$ and RV creates BOP Deficit. CB must sell Forex reserves, and $M^s \downarrow$. No net change in $Y$, $R$, etcetera.

The more AD shifts out, the more inflation. 
(f) and (b) would not affect inflation. 
(c) and (e) would be very inflationary.

EMP has little effect on either country. 
Home has BOP deficit, sells gold, and $M^s \downarrow$. 

In Home country, $Y \uparrow$; in Foreign, inflation $\uparrow$. 

Home has BOP deficit, sells Forex RL. 
Foreign has BOP surplus, buys Dollars, $M^s \uparrow$. 
Similar to (b), but less so.

$R \uparrow$ and $R^* \uparrow$, so $E \downarrow$. 
Y $\downarrow$ at Home, recession. 
Significant inflation in Foreign.
a) If $E$ is too high, this makes exports cheaper, and imports expensive. It is also likely to cause a BOP surplus and inflation, because $M^s \uparrow$. $\text{NX}$ will be high, and when $\text{NX} \uparrow$, $Y \uparrow$, so $\text{LT}$.

Since currency is only likely to appreciate, this leads to capital inflows (and BOP surplus grows).

b) As economy grows, this eventually becomes inflationary. $\text{As } P \uparrow \text{ RE } = \frac{E^p*V}{P}$ and $\text{NXV}$.

c) The revolution means $E = E^c \downarrow$. $\text{M}^s$ shifts down.

$\text{NXV}$, so $Y \downarrow$, so $\text{LU, RV}$. To prevent BOP Deficit, CB must reduce $M$ to raise $R$ back. $\text{AA}$ shifts down again.

a) With a unilateral peg, you can't force a revolution, but the CB can run out of Forex with a BOP Deficit. Thus, the risk is not symmetric.

b) $E^c \uparrow$ makes AA curve shift up.

If $E^c \uparrow$, this creates a BOP Deficit. $M^s \downarrow$, $R \uparrow$. AA shifts down, if $\text{IV}$, then $\text{DD}$ shifts back. The economy goes into recession.
4c) (i) If the CB is proactive, they defend the currency by selling domestic bonds. MS, RT, recession results, but CB does not run out of Forex and Ec may fall back since CB is credible in defending currency.

(ii) If the CB is passive, BOP Deficits force CB to sell Forex reserves, MS, RT, recession results, but CB has less Forex reserves and may be susceptible to the next crisis.

(iii) If the CB sterilizes, they buy domestic bonds to offset selling Forex. MS remains stable, recession is avoided, but BOP crisis worsens. Ec continues to remain high (or higher) and eventually CB runs out of Forex reserves. Then they must devalue, and they lose all credibility for next time.

This could lead to a downward spiral in the currency.

(A) The J-Curve is the argument that Ec↑ may cause NX↓ in the short-run, because Ec↑ means we have to pay more for imports. More likely in SDR, more likely when we have a trade deficit.

(B) Under Botton Woods, the U.S. Dollar was the reserve currency, and this was not fixed in quantity even though it was tied to gold. The IMF could lend reserves to cover short-run BOP deficits, and the U.S. could maintain permanent BOP Deficits.

(C) With fixed shocks, fixed rates are likely to be more unstable, and diversification would become more important.

(D) Trilemma - A country cannot have open capital markets, fixed exchange rates, and monetary autonomy.