**EC 233**

**Fall 2017**

**Homework 2** Due Date: 10/16/2017

**Please answer all 3 questions. To receive full credit, work must be shown, and all graphs completely labeled. In question 2, fill in the table.**

**1. Indicate the impact of the following on the exchange rate between the U.S. and the Brazilian Real**

A. An increase in the growth rate of the Brazilian economy

B. A rise in interest rates in the U.S.

C. A fall in the inflation rate in Brazil

D. The imposition of a high tariff on imports by the Brazilian government

* + - 1. In part D), show what happens if the Real is fixed to the U.S. dollar.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Currency Regime | Stability | Independent Monetary Policy | Free Capital Flows | Subject to Speculative Attack? |
| Hard Peg |  |  |  |  |
| Crawling Peg |  |  |  |  |
| Soft Peg |  |  |  |  |
| Dirty (Managed) Float |  |  |  |  |
| Freely Floating |  |  |  |  |

3. **Briefly explain how each of the following contributed to the East Asian Financial Crisis:**

* Dollar-Denominated Debt
* Interdependent foreign trade
* Soft Pegging of currencies
* Corrupt governmental institutions