Econ 100B: Macroeconomic Analysis  
Fall 2008  
Problem Set #7  
(Due September 24 - 25, 2008)

A. On one side of a single sheet of paper:

1. Clearly and accurately draw and label a diagram of the Small Open Economy Saving-Investment Model.

2. Provide an economic explanation of the shape of the curve(s) in your diagram in #1.

3. List the endogenous and exogenous variables in this model.

4. List the variables (and the direction of their change) that would shift the saving function to the right. Also provide an economic explanation for why each of these variables would shift the saving function.

5. List the variables (and the direction of their change) that would shift the investment function to the right. Also provide an economic explanation for why each of these variables would shift the investment function.

6. Assume that the economy starts in equilibrium. Suppose now that the effective corporate tax rate increases. Describe the adjustment process that moves the economy from its initial equilibrium to its final equilibrium.

B. On one side of a single sheet of paper:

1. Clearly and accurately draw and label a diagram of the Large Open Economy Saving-Investment Model.

2. Provide an economic explanation of the shape of the curve(s) in your diagram in #1.

3. List the endogenous and exogenous variables in this model.

4. List the variables (and the direction of their change) that would shift the saving function to the right. Also provide an economic explanation for why each of these variables would shift the saving function.

5. List the variables (and the direction of their change) that would shift the investment function to the right. Also provide an economic explanation for why each of these variables would shift the investment function.

6. Assume that the economy starts in equilibrium. Suppose now that the effective corporate tax rate decreases. Describe the adjustment process that moves the economy from its initial equilibrium to its final equilibrium.