

Attention: *Graphics and equations should be accompanied with **short and precise** comments; it is often the only way to make a difference between a calculation mistake and deficient comprehension. However, comments that have nothing to do with the question will be interpreted as a lack of understanding.*

*The exam is marked on **100** points. This questionnaire has **1** page. GOOD LUCK!*

A. (60 points) Economic Policy in an Open Economy: The IS Model

A country's open economy is presently suffering from a slowdown and its government would like to boost its output level. Its trade is presently perfectly balanced, that is, the trade surplus is zero.

You have just graduated successfully from the economics program at U of Ottawa and the president of that country hires you to **explain** to him on how to go about increasing the output. The only condition that he imposes is that the proposed policy does not turn the trade balance into a trade deficit. (NB This question refers to chapter 7. Therefore, it must be answered within the framework of the IS model only.)

(a) **(20 points) Explain** to the president, with the use of graphic(s), why trade is presently balanced. (NB Make sure that each curve is well identified by its corresponding equation but **do not** explain the equations and **do not** explain why output is too low.)

(b) **(20 points)** Propose your policy and explain how it works with the use of graphics.

(c) **(10 points)** Suppose now that the main trading partners of this economy are also suffering from the same economic slowdown. **Explain, in words only**, how it would facilitate matters if you could coordinate your policy with that of those trading partners.

(d) **(10 points)** Is the coordinated policy often used in real life? Why?

B. (40 points) Economic Policy in a Closed Economy: The IS-LM Model

In 1993, a new government was elected in Canada that inherited a difficult macroeconomic situation: low GDP growth, high unemployment, and a large budget deficit. Explain, with the help of graphics, what the government did to improve on that situation. (NB Assume a closed economy.)