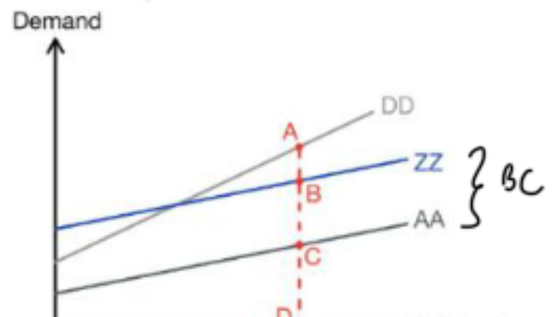
1. **Multiple Choices: (3'*7 = 21 points).** ***Only one correct answer unless otherwise stated.*** **Please write your answers in the bubble sheet on the last page. Answers written anywhere else will NOT be graded.**

1. Which of the following events will cause the largest decline in the real exchange rate? Denote the domestic and the foreign price level by P and P*, respectively.
   a) an 8% nominal depreciation and an 8% reduction in P*
   b) an 8% increase in P and an 8% reduction in P*
   c) an 8% nominal depreciation and an 8% increase in P*
   d) a 3% nominal appreciation and a 3% increase in P

$\mathcal{E} = \frac{EP^*}{P}$ ↓ 8% ↑ 8%

$\mathcal{E} = \frac{E(0.92)P^*}{1.08P} \rightarrow \frac{0.92}{1.08}\frac{EP^*}{P}$

2. Given the current output, Y0, which distance represents the country's exports?



ZZ = C + I + G + X − EQ → aggregate demand for domestic goods
DD = C + I + G → Domestic demand for goods
AA = C + I + G − EQ → Domestic demand for domestic goods