

SIMON FRASER UNIVERSITY
Department of Economics

Econ 305
Intermediate Macroeconomic Theory

Prof. Kasa
Spring 2021

PROBLEM SET 3
(Due April 7)

1. (25 points). When he was president, Donald Trump imposed tariffs on both Canadian and Chinese exports to the USA. Use the Keynesian Mundell-Fleming model to compare and contrast the effects of these tariffs on Canada and China. Which economy will be hurt more by the tariffs? (Ignore retaliation). Use graphs to illustrate your answer. Note: Canada has a flexible exchange rate against the US dollar, whereas China has a fixed exchange rate against the US dollar.
2. (25 points). Recently, there has been a lot of speculation about China's future exchange rate policy. Some people think China should allow its exchange rate to be more flexible. Use the Keynesian Mundell-Fleming model to analyze the effects (on China) of increased RMB flexibility. Under what conditions would increased exchange rate flexibility produce greater stability in China? Under what conditions would it cause greater instability? Use graphs to illustrate your answer.