1. Suppose the government issues shopping vouchers worth 3600 NT per person to all consumers. Use the GRAPHS of Irving Fisher's two-period intertemproal model to answer what happen to period 1 and period 2 consumption for the following consumers:

Note: please use graphs and explain using words what happen on the graphs. Points will not be given if you use only algebras without drawing the graphs. **Points will also not be given if you do not explain what happen in your graphs using words. Also, please label your graphs clearly.**

(i) Paul does not face borrowing constraint. Paul believes that the shopping voucher is a free lunch. (5 points)

(ii) Sam does not face borrowing constraint. Sam believes that the government will impose 3600*(1+r) of additional taxes in the second period, where r is the real interest rate. (5 points)

(iii) Robert faces a binding borrowing constraint. Robert believes that the shopping voucher is a free lunch. (5 points)

(iv) Chris faces a binding borrowing constraint. Chris believes that the government will impose 3600*(1+r) of additional taxes in the second period, where r is the real interest rate. (5 points)

2. Briefly explain using words how each of the following affects the effects of the shopping vouchers:

(i) Overlapping generations and motive to leave bequests (5 points)

(ii) Nominal rigidity and marginal propensity to consume (5 points)

3. Using the graphs of IS-LM-BP model with perfect capital mobility, discuss the effects of an increase in government spending under the following two cases:

(i) Flexible exchange rate (5 points)

(ii) Fixed exchange rate (5 points)

Note: Points will not be given if you do not explain what happen in your graphs using words. Also, please label your graphs clearly.

4.
(i) Using the graph of a Solow growth model, explain what would happen to a country's steady state output

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per effective worker when its **technological growth rate** increases. **Note: Points will not be given if you do not explain what happen in your graphs using words. Also, please label your graphs clearly.** – (5 points)

(ii)　What happen to this country's steady state growth rate of output, steady state growth rate of output per worker and steady state output per effective worker? Explain the reasons behind the result. **Points will not be given if there is no explanation** – (5 points)

5. Concerning the recent financial tsunami originated from the collapses of mortgage and security firms in the US, answer the following questions. Your explanations determine the grades.

（i）The financial tsunami is widely believed to be triggered by the fall of real estate prices in the US. Explain why the fall of real estate prices caused the sub-prime mortgage market to collapse. (10 points)

（ii）Some blames China for the crisis, saying that its huge trade surplus with the US had fostered the real estate bubble in the US. From the economics point of view, explain why this argument might be true? (10 points)

6. Assume country A and B are both small open economies with floating exchange rate. They are identical except that country A's money demand is relatively insensitive to changes in the interest rate. Now assume that both countries cut tax by the same amount. Does country A has a larger change in the equilibrium output? Why or why not? Explain your answer. (10 points)

7. Suppose there is a permanent productivity shock that shifts the production function upward proportionally. The MPK schedule increases as a result.
　（i）Explain why the interest rate may increase in response to the shock even though the shock is permanent. You may use graphs and/or equations to help answer the question. (10 points)

　（ii）How would consumption normally change in response to a higher interest rate? Why you may still expect the consumption to change differently in this case? (10 points)

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