

**MEKDELA AMBA UNIVERSTIY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**Department of Economics**

**International economics II**

**INDIVIDUAL Assignment**

**Target Group: 2nd year Economics regular students (2012 E.C)**

**Maximum Weight: 10%**

**Submission date: 9/9/2012**

**Submission Channel Link: t.me/econmau**

**Submission Channel Name: economics year 2 MAU**

To be done in groups, maximum of 5 members in each group.

* Neatness has its own value,
* Cheating results serious punishments

**INSTRUCTION**: **Provide short and precise explanation for each of the following questions.**

1. Discuss the various sub-accounts in the balance of payments account. How do they differ from one another?
2. Discuss what each of the following means and the significance of each:
3. Trade account
4. Basic balance
5. Official settlements balance
6. Current account
7. Capital account
8. Assume that the national bank of Ethiopia wanted to devalue the Ethiopian Birr from 13.57 Birr/ US $ to 15 Birr/US $ in an attempt to improve the balance of payments position of the country. Using the elasticity approach, explain the conditions under which the attempted policy action would be effective in meeting the desired goal of the bank. What is the likely Impact of this policy action given the import and export conditions of the country?
9. Suppose you were a policy maker, do you promote the use of a single instrument (say fiscal policy) to achieve multiple targets (say an achievement of both internal and external balance)? Why?
10. ‘The intersection of the IS, LM and the BP schedules represents the equilibrium of the Mundell-Fleming model. At this equilibrium point, policy makers would be able to achieve full employment’. Do you agree to this? Why?
11. Suppose you were an advisor to monetary authorities and there is a problem in the balance of payments of your country; would you suggest the use of devaluation along with expansionary monetary policy (open market operation)? Why?