

1. Assume the economy of Sweden is in long-run equilibrium and has a surplus in its current account.
- (a) Is the Swedish capital and financial account in deficit, in surplus, or in balance? Explain.
 - (c) Assume the United Kingdom decreases its imports from Sweden. On your graph in part (b), show the new equilibrium real output, labeled Y_2 , and the new equilibrium price level, labeled PL_2 , as a result of this change.
 - (d) As a result of the decrease in the United Kingdom's imports from Sweden, would policy makers in Sweden be more concerned about cyclical unemployment or inflationary pressures in the short run? Explain.
 - (e) If the Swedish central bank's goal is to return the economy to long-run equilibrium, what open-market operation should it use?
 - (g) If the Swedish central bank's goal is to reverse the exchange rate change shown in part (f) by changing the interest rate, what open-market operation should it use?
 - (h) Explain how the open-market operation identified in part (g) would reverse the change in the exchange rate.

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.