EUR/USD $1.33 = \frac{1}{e_{EU}}$

USD/JPY $98.5 = e_{JA}$

e : $\frac{lc}{\$}$

$\frac{1}{1.33} = .75$

$e \uparrow \Rightarrow$ depreciation of lc

$e \downarrow \Rightarrow$ appreciation of lc

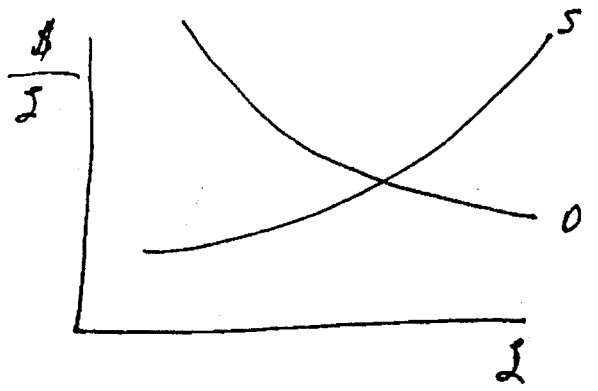
$e_{UK} = \frac{1}{1.44} = .69$

FIXED e

1. Multiplier model
2. Demand for imports
3. Demand for exports
4. Trade feedback effect
5. Price feedback effect
   (import and export prices)

FLEXIBLE e

1. Supply of and demand for a currency
2. Effects on supply and demand
   a) PPP
   b) Relative interest rates
3. Effects of e on the economy
   a) GDP
   b) Current account - J curve



PPP : $P^* = e \cdot P$ $\left(e = \frac{\$}{£}\right)$

r vs. r^* : $\frac{r^*}{r} \uparrow \rightarrow e \downarrow$

$e \uparrow$: depreciation of $, appreciation of £
$e \downarrow$: appreciation of $, depreciation of £

$P_M = \frac{1}{e} P_X^*$ $\left(P_M^* = e \cdot P_X\right)$

$e \downarrow \rightarrow P_M \uparrow \rightarrow P \uparrow \rightarrow P_X \uparrow \ldots$

$e \downarrow \rightarrow P_M \uparrow \rightarrow IM \downarrow \rightarrow Y \uparrow$
$\quad \hookrightarrow P_M^* \downarrow \rightarrow EX \uparrow \rightarrow Y \uparrow$

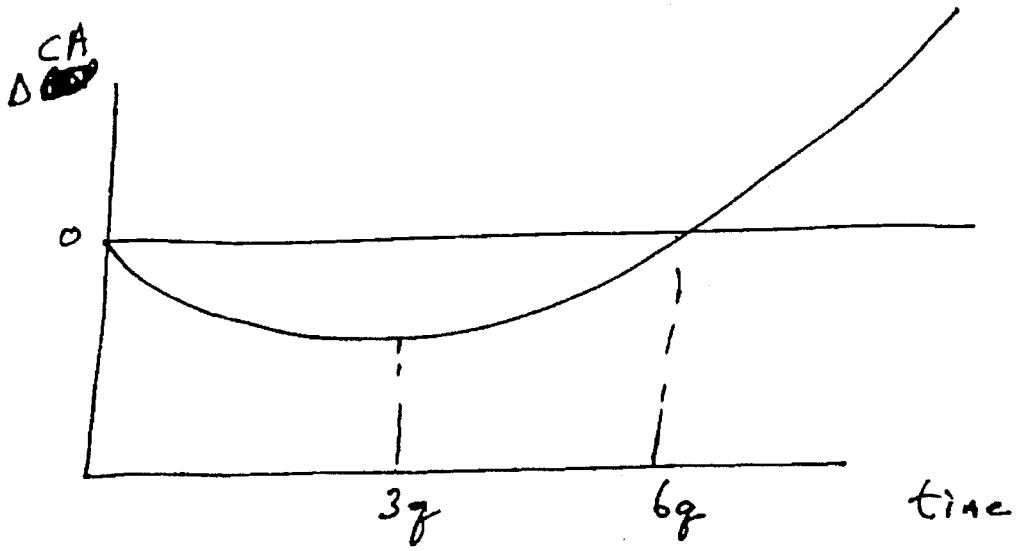
MP : $r \downarrow \rightarrow e \downarrow \rightarrow Y \uparrow \rightarrow P \uparrow$ e helps
$\quad \hookrightarrow P \uparrow$

FP : $G \uparrow \rightarrow r \uparrow \rightarrow e \uparrow \rightarrow Y \downarrow \rightarrow P \downarrow$ e hurts
$\quad \hookrightarrow P \downarrow$

J - Curve

$$\Delta CA = PX \cdot EX - PM \cdot IM$$

$$PM = \frac{1}{e} PX^*$$



e ↓

ΔCA	0	+	+	−
=	PX · EX		−PM · IM	