

Since the break

$IM = mY$ [more realistically, IM depends on same things as C does plus $\frac{P}{PM}$]

EX endogenous (imports of other countries)

PM endogenous (depends on e & other countries' export prices)

[important to remember that PM affects P]

e added (depends on PPP & relative interest rates)

(affects PM & EX)

trade feedback effect

price feedback effect

effects of a depreciation

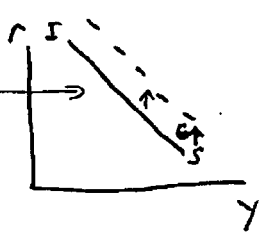
monetary policy and fiscal policy effects when the exchange rate is flexible.



IS

$$\begin{cases} (1) C = bY, & b > 0 \\ (2) I = er, & e < 0 \\ (3) Y = C + I + G \end{cases}$$

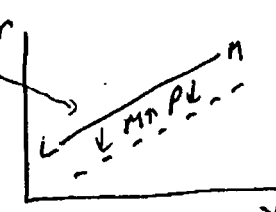
$$(3)' \quad Y = \frac{e}{1-b} r + \frac{1}{1-b} G$$



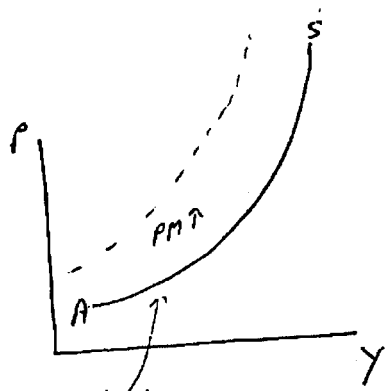
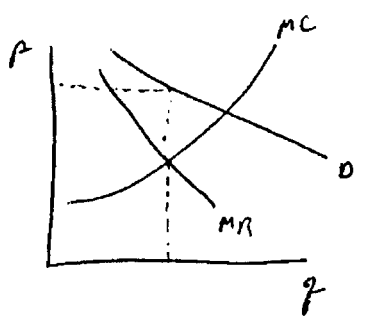
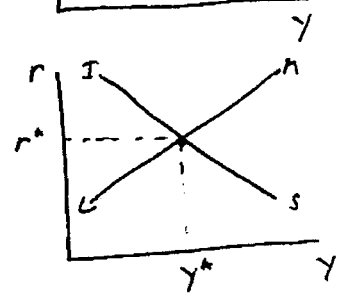
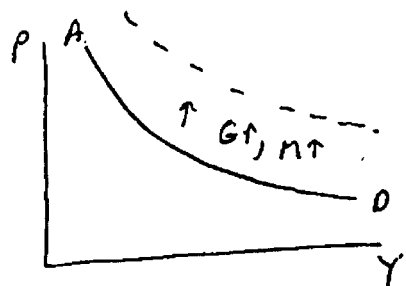
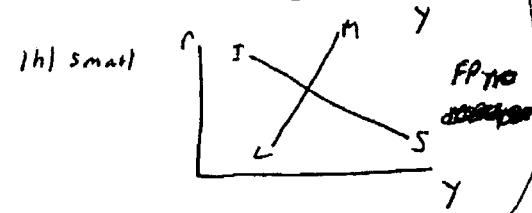
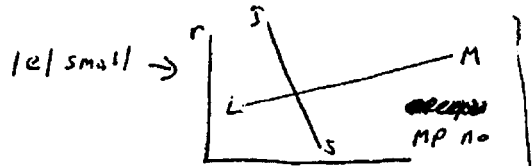
LM

$$\begin{cases} (4) \frac{M^d}{P} = gY + hr, & g > 0, h < 0 \\ (5) \frac{M^s}{P} = M \\ (6) M^d = M^s \end{cases}$$

$$(6)' \quad Y = \frac{1}{g} \frac{M}{P} - \frac{h}{g} r$$



$$(3)'' \quad Y = \left(\frac{e}{h(1-b) + eg} \right) \frac{M}{P} + \left(\frac{h}{h(1-b) + eg} \right) G$$



$$(7) P = f_1(Y, PM)$$

$$(8) r = f_2(Y, P)$$

$$\begin{aligned} b &= .8 & \frac{1}{1-b} &= 5.0 \\ g &= .2 & h &= .1 \\ h &= .1 & \frac{h}{h(1-b) + eg} &= 2.5 \\ e &= -.1 & & \end{aligned}$$

$\sigma = .3$

$$\begin{aligned} C &= b(Y - \sigma Y) \\ T &= \sigma Y \\ 0 &= G - T \\ \Rightarrow G &= T \end{aligned}$$

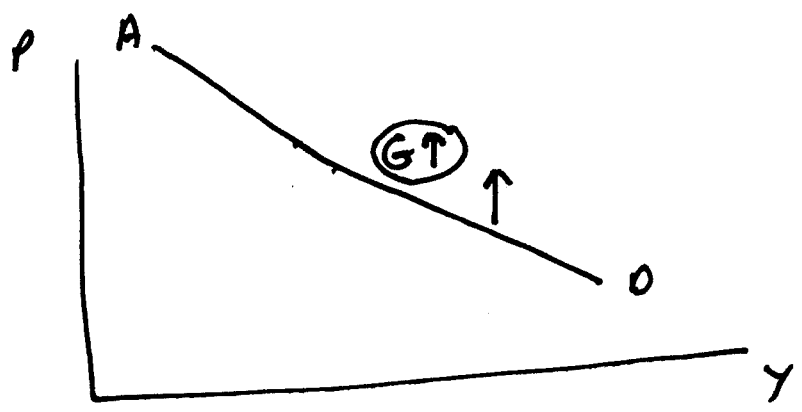
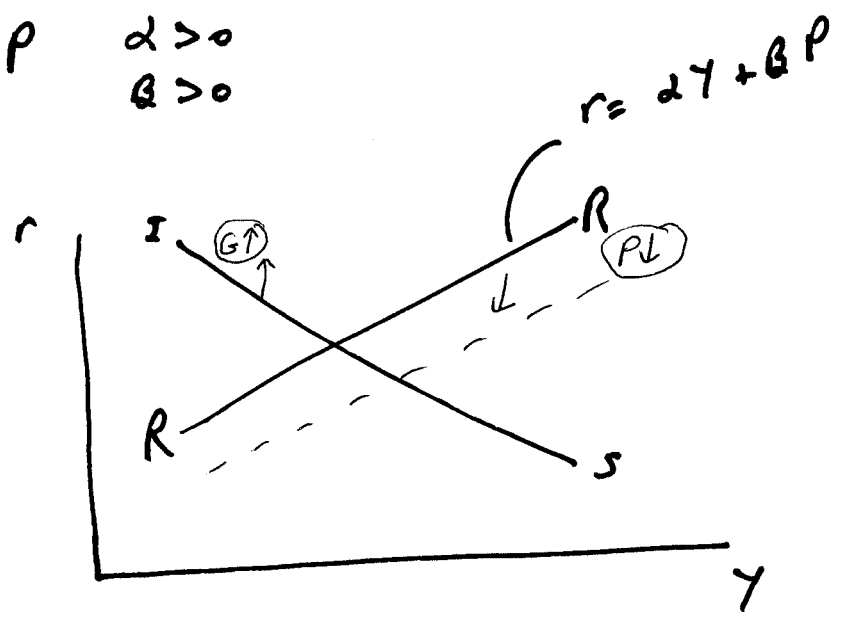
$$\begin{aligned} Y &= b(Y - \sigma Y) + I + G \\ Y &= \frac{1}{1-b+\sigma b} (I + G) = 2.27(I + G) \\ Y &= b(Y - \sigma Y) + I + \sigma Y \\ Y &= \frac{1}{1-b+\sigma b - \sigma} I = 7.14 I \end{aligned}$$

$C = bY \quad b = .8$

$I = er \quad e = -.1$

$Y = C + I + G$

$r = \alpha Y + \beta P \quad \alpha > 0$
 $\beta > 0$



$r = .1 \left(\frac{\text{WINS}}{\text{WINS} + \text{LOSSES}} \right)$

