ECON 1550: International Finance

IS-LM-PC in one day
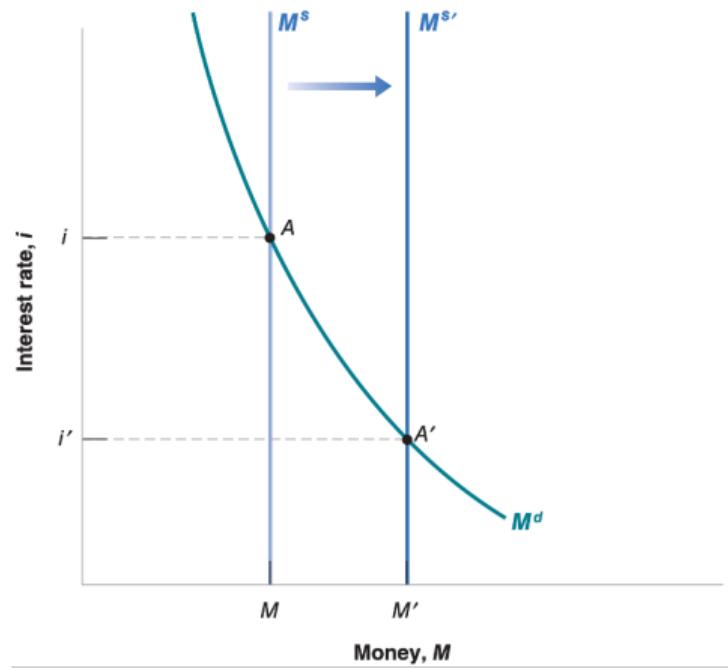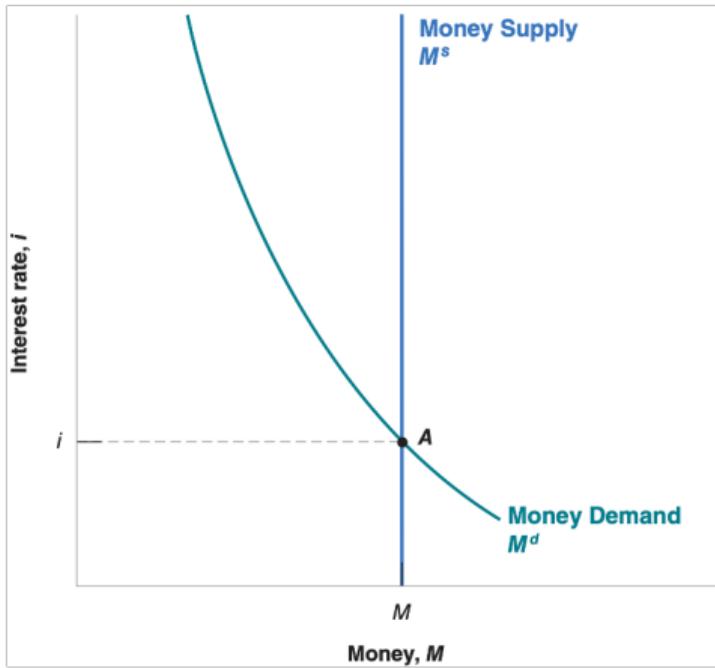
Announcements

- Problem Set 1 due next Wednesday

- Read pages 13–23 of textbook before Friday lecture

- Office hours for this week on Canvas

- Section will be announced

- Notes of intermediate macro posted on Canvas
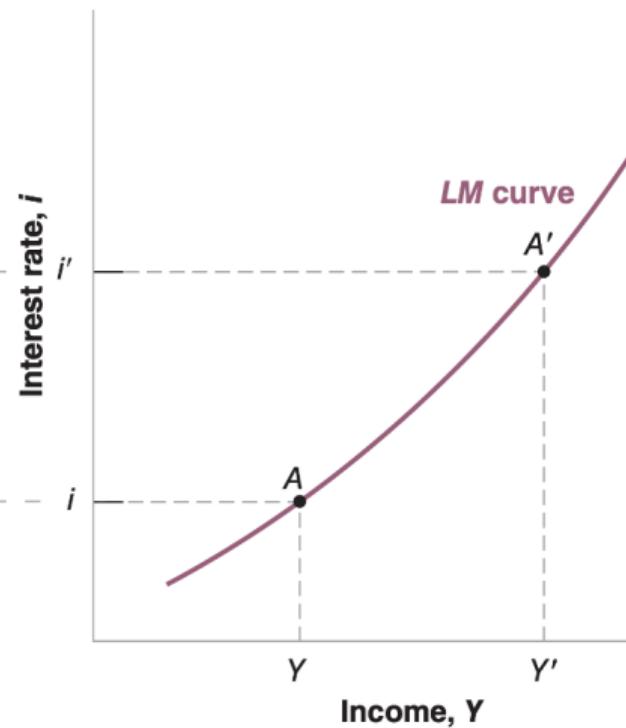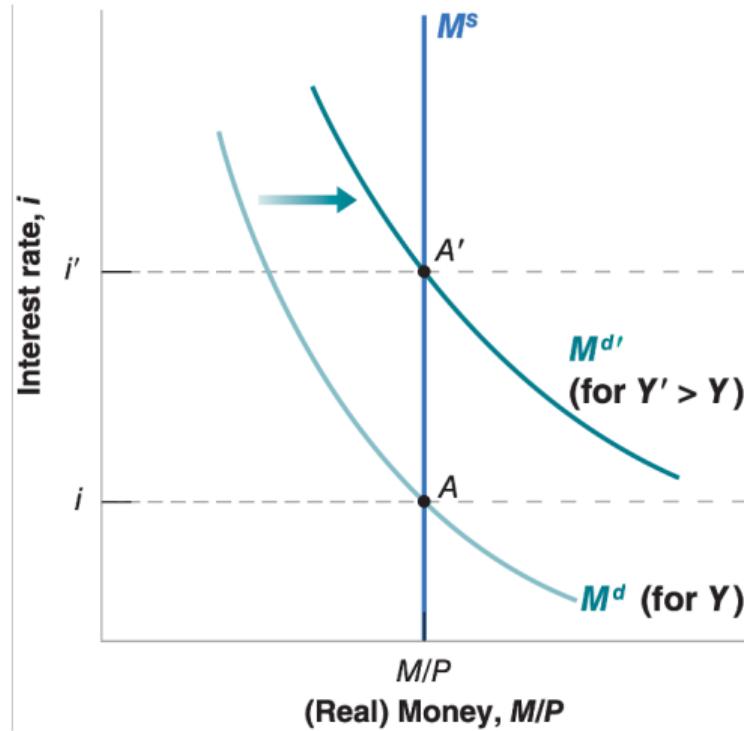
Agenda

- Close loop on Tour of the class and models

- IS-LM

- IS-LM-PC
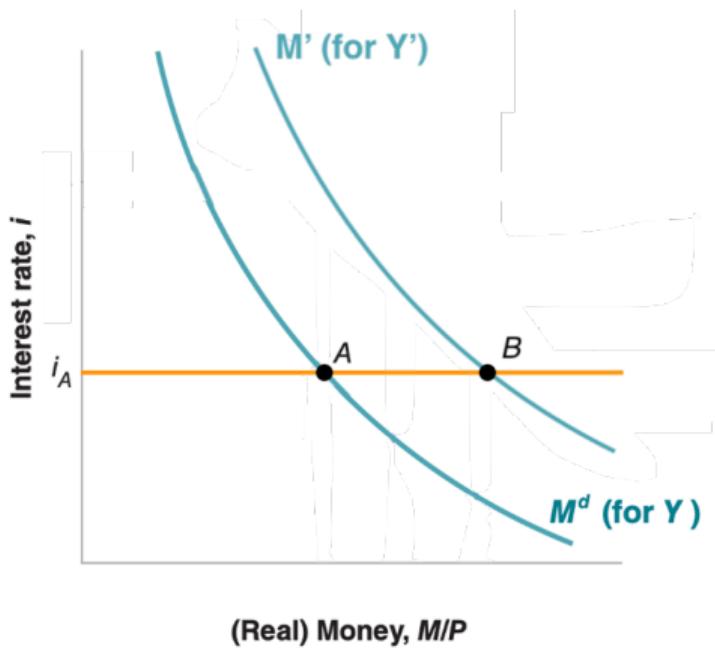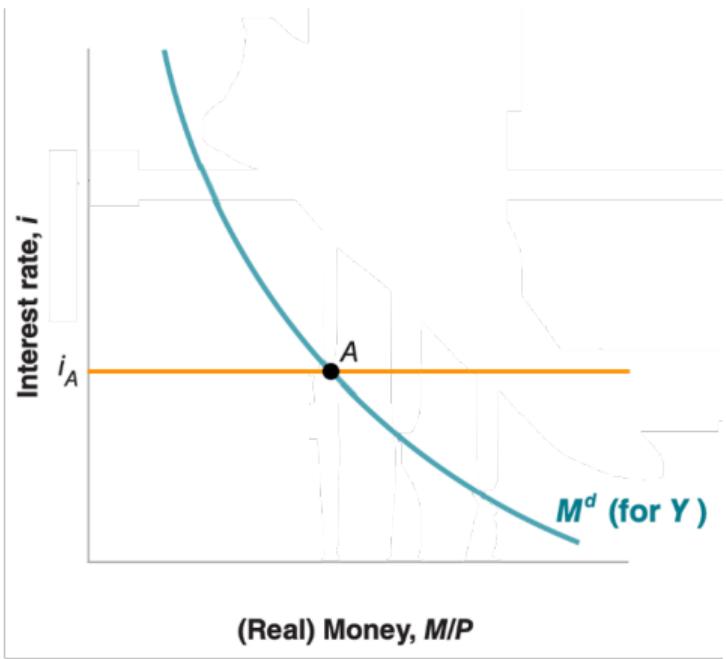
# Exogenous money supply…
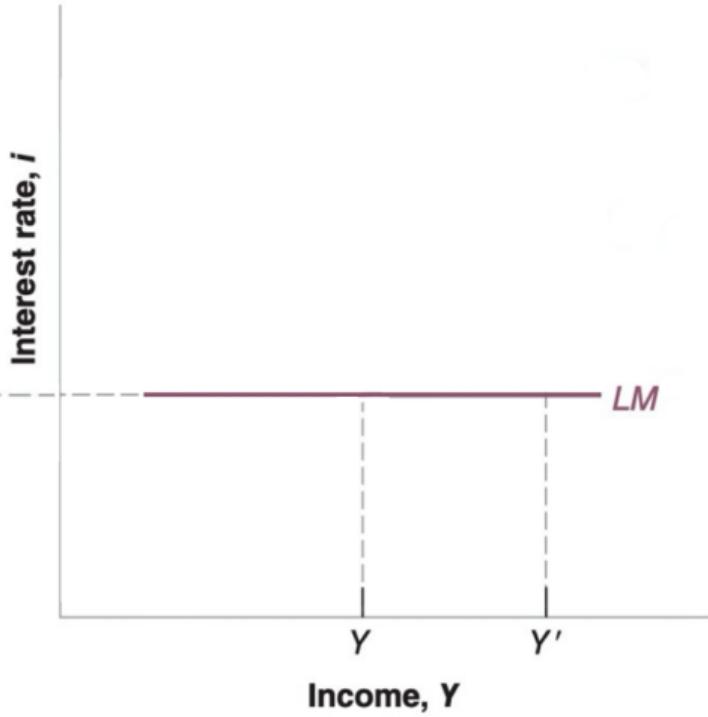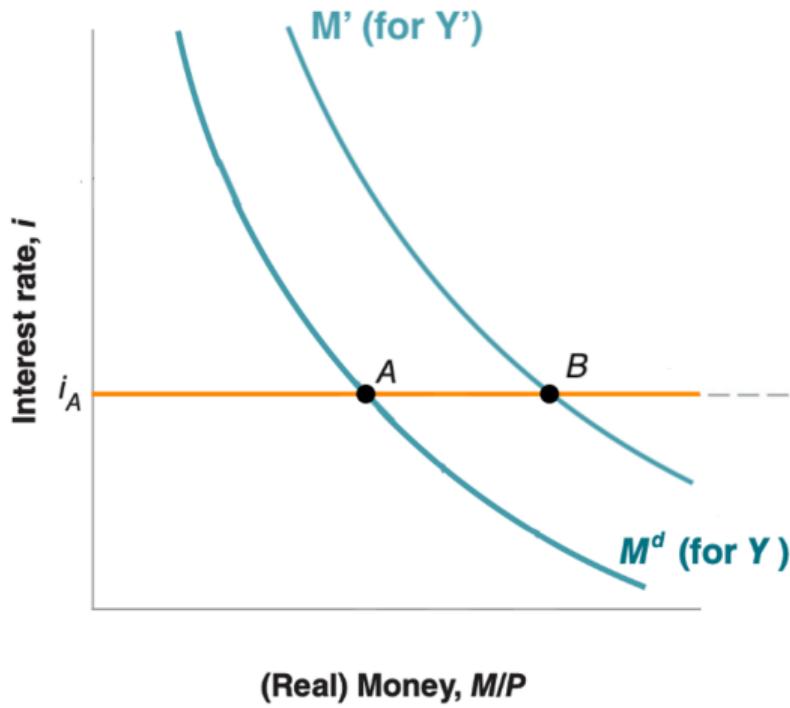
…leads to an upward sloping LM
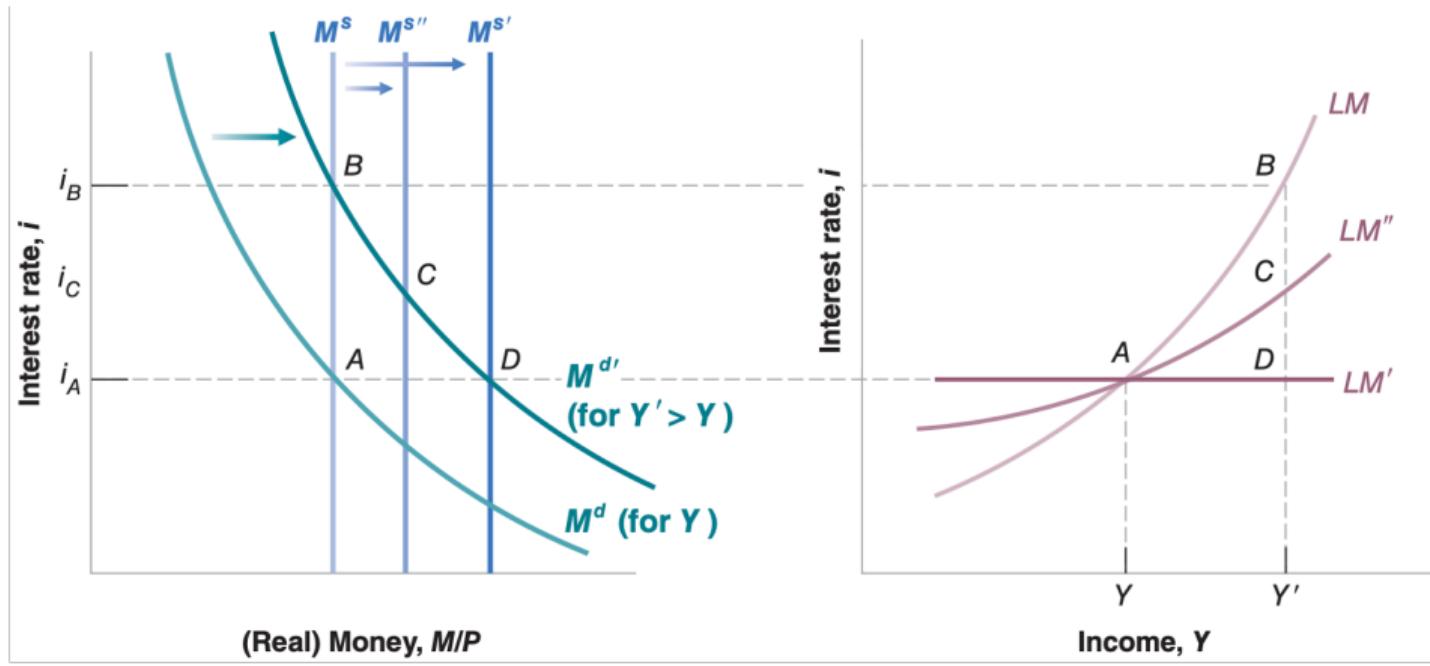
Exogenous interest rates…

…lead to a flat LM

Endogenous Money Supply

A Model for the Labor Market

(Wage setting) $$W = P^e F(u, z)$$

(Price setting) $$P = (1 + m)W$$

(Definition of expected inflation) $$\pi^e = P^e/P - 1$$

(Linear function F) $$F(u, z) = 1 - \alpha u + z$$

Phillips Curve

• Three equivalent forms

$$\pi = \pi^e - \alpha(u - u^n)$$

$$\pi = \pi^e + \alpha(Y - Y^n)$$

$$\pi = \pi^e + (m + z) - \alpha u$$