ECON 1550: International Finance

IS-LM-PC in one day

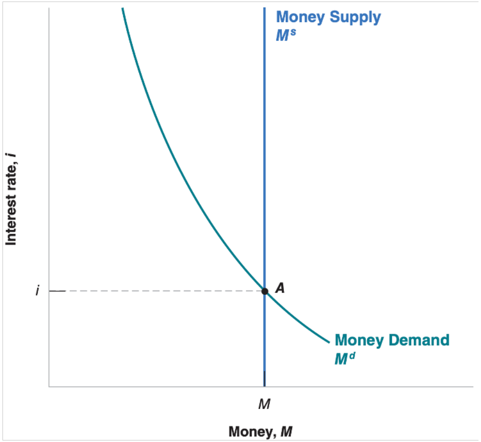
Announcements

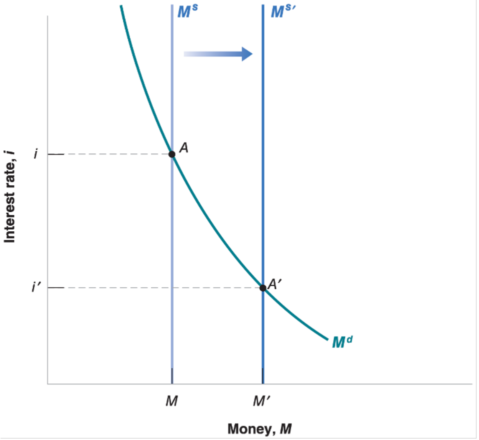
- Problem Set 1 due next Wednesday
- Read pages 13–23 of textbook before Friday lecture
- Office hours for this week on Canvas
- Section will be announced
- Notes of intermediate macro posted on Canvas

Agenda

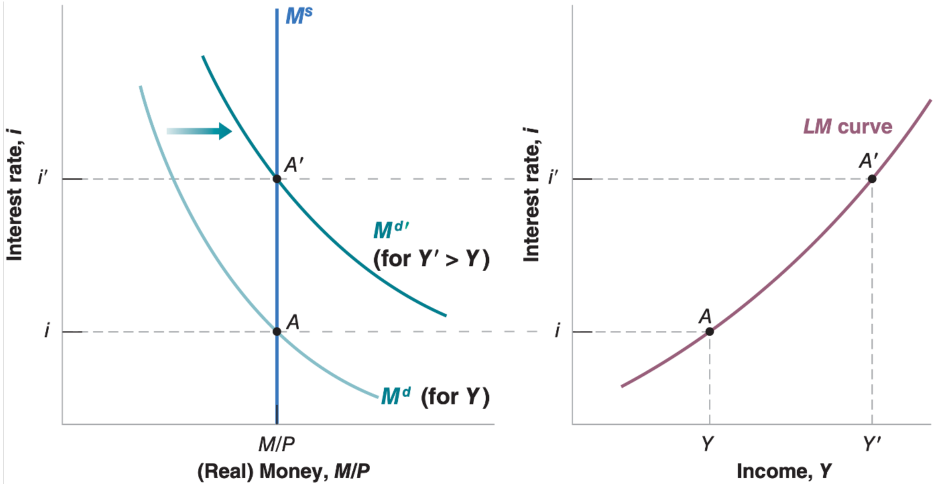
- Close loop on Tour of the class and models
- IS-LM
- IS-LM-PC

Exogenous money supply…

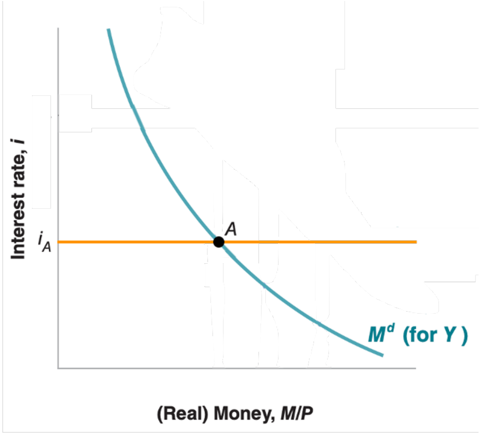


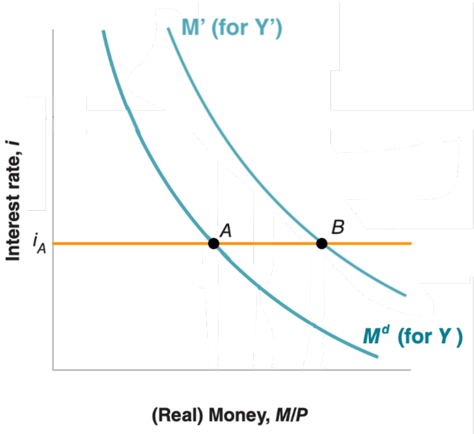


…leads to an upward sloping LM

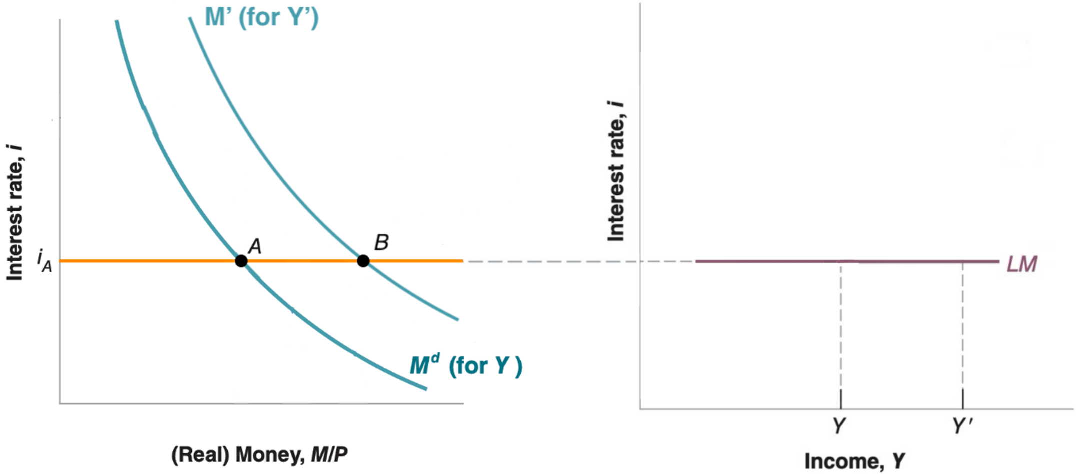


Exogenous interest rates…

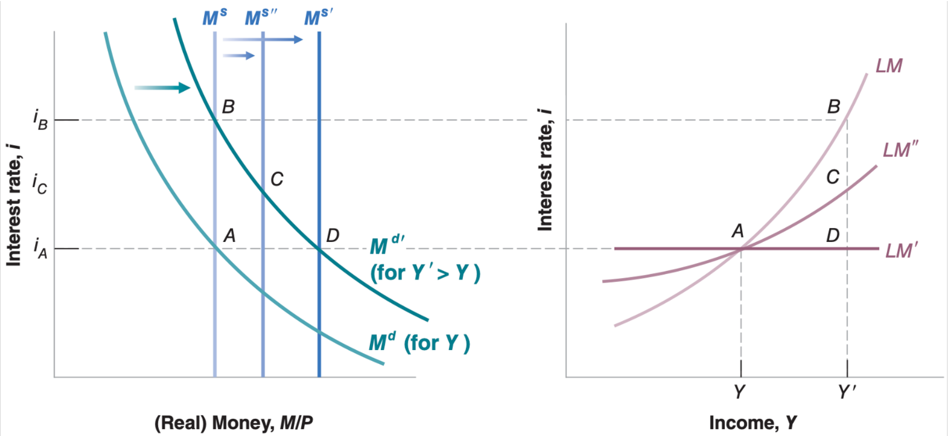




…lead to a flat LM



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

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

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

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