

ECON 1550: International Finance

IS-LM-PC in one day

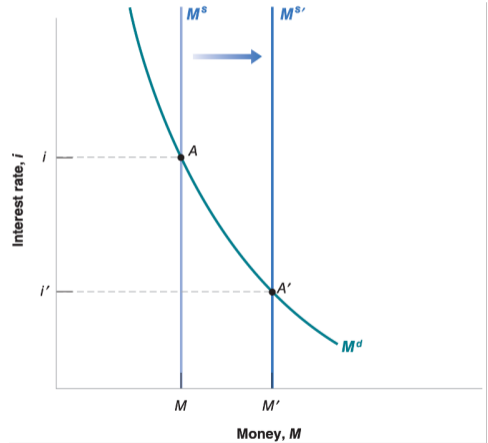
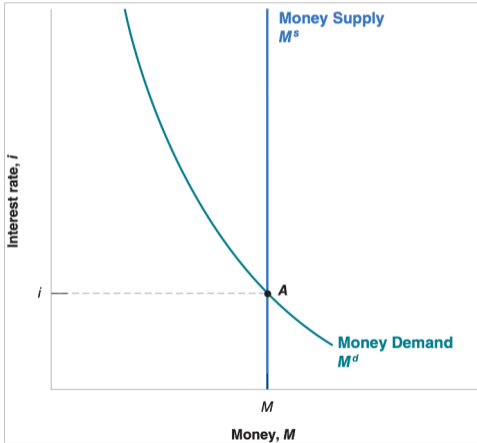
Announcements

- 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

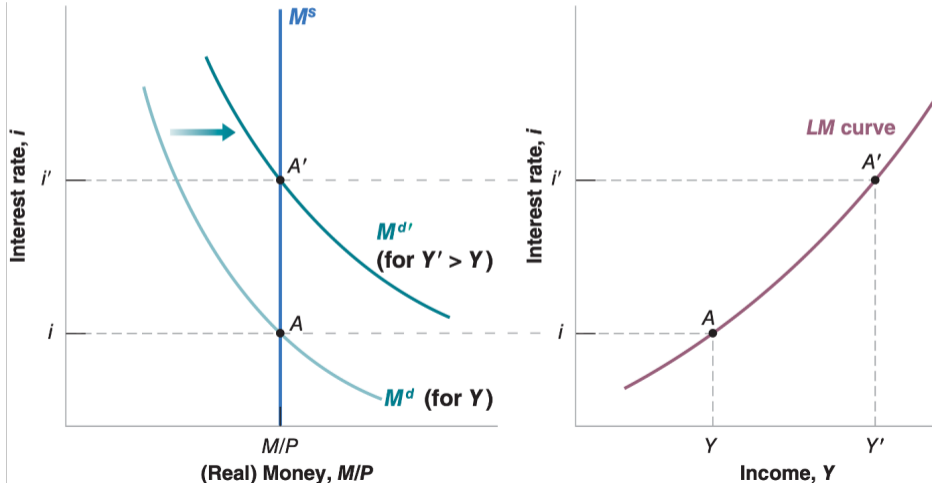
Agenda

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

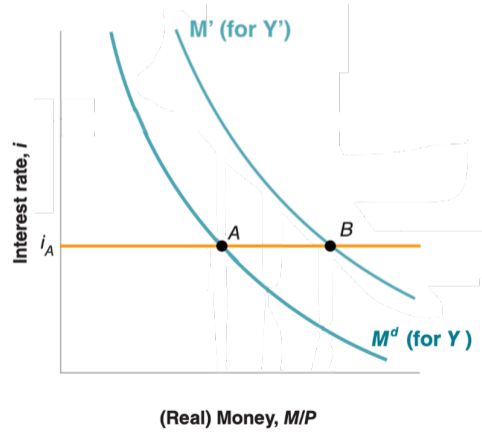
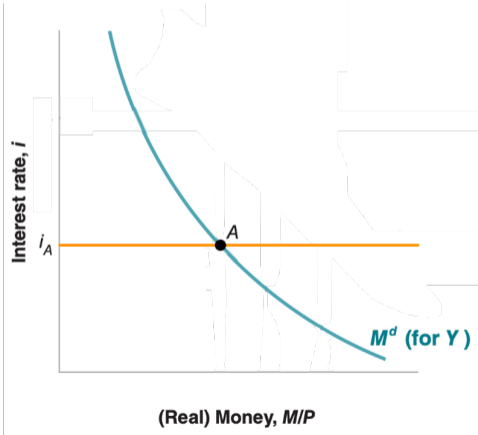
Exogenous money supply...



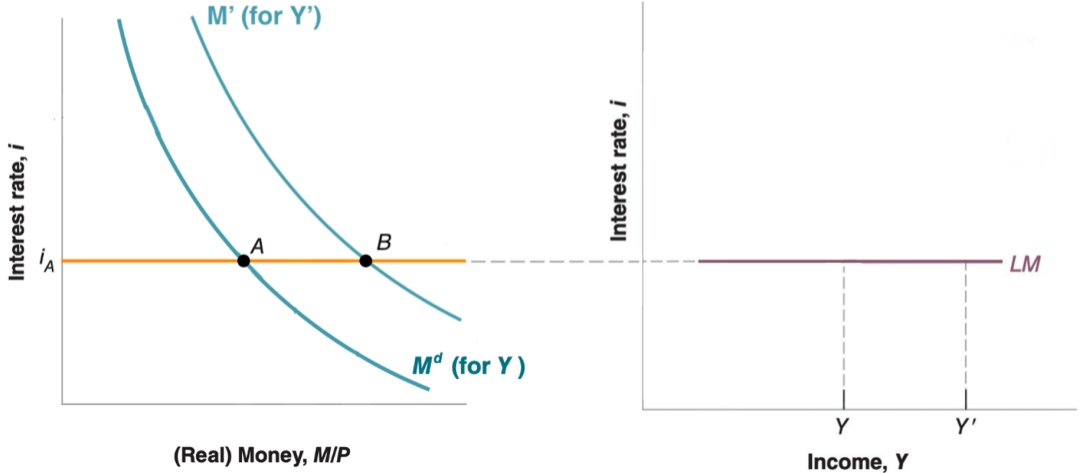
...leads to an upward sloping LM



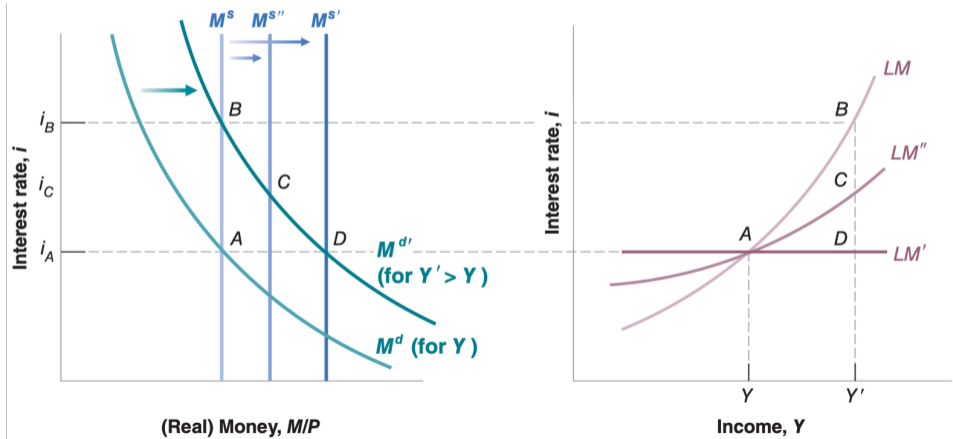
Exogenous interest rates...



...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

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

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

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

