Monetary Economics
Workshop VII

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Consider the following log-linear model

$$
\begin{aligned}
y_t &= E_t y_{t+1} - \frac{1}{\sigma}\left(R_t - E_t \pi_{t+1}\right) + g_t \\
\pi_t &= E_{t-1}\pi_t + \alpha y_t \\
R_t &= \bar{R}_t
\end{aligned}
\tag{1}
$$

1. Briefly explain the meaning of each equation and how the first one can be derived.

2. Solve for inflation and output, briefly commenting on your results (if you get stuck, do not spend to long on it but try to figure out where and why the difficulty lies).