

$(C_1, C_2)$

$(Y - C_1)$

$$M_t = \$10, P_t = \$2$$

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$$M_t' = \$15, P_t' = \$3$$

$$C_{2,t}' = 5b$$

Is the Monetary  
eqm efficient?

best m.p.  $z = 1$

$n = 1$  ✓

$n > 1$  ✓

$z > 1$

✗

✗

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$z > 1$  <https://powcoder.com>

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$z = 2, M_t = \$80$

$\frac{\$40}{100}$

$N_{t-1} = 100$

$= \$0.40$

$$V_t = 5b/\$ \rightarrow$$

$$p_t = \$0.20/b$$

$$a_t = 2b$$

$$V_{t+1} = \frac{M_{t+1}(y - c_1)}{M_t}$$

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$$\begin{aligned} \frac{V_{t+1}}{V_t} &= \frac{\cancel{M_{t+1}}(y - c_1)/\cancel{M_{t+1}}}{\cancel{M_t}(y - c_1)/M_t} \\ &= \frac{M_t}{M_{t+1}} = \frac{1}{2} \end{aligned}$$

$$z = 1.1, \quad \frac{1}{z} = 0.9$$

$$1 - \frac{1}{z} \approx 0.1$$

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$$\text{Max } w c_1, c_2$$

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S.t.  $c_1 + 2c_2 \leq$

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$$y + 2a$$

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$\left. \begin{array}{l} c_1 \\ c_2 \end{array} \right\} \begin{array}{l} y + 2a \\ \Rightarrow 0 \end{array}$

$\times \text{eqn}$

$(N.Y)$

Monetary eq<sup>m</sup>  
is a C.E. the following  
3 cond<sup>n</sup> are satisfied

1. Max U s.t. Life time  
b.c

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2. Price takers  
(Vt)

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3. Mkts clear

{ ① goods mkt  $\rightarrow V_G$   
② money mkt

③ gov't b.c. balanced  
↳ at

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Max  $C_1, C_2$

s.t.  $C_1 + 2C_2 \leq y + za$   
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b.c.  $\rightarrow C_1 = y + za - 2C_2$

s.t. objective f'm

Max  $(y + za - 2C_2) \cdot C_2$

For wrt  $C_2$

$$C_2(-z) + (y + za - zC_2) = 0$$

$$\left\{ \begin{array}{l} C_2 = \underline{y + za} \end{array} \right.$$

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$$z = 2$$

$$\left\{ \begin{array}{l} C_1^* = \frac{2y}{3} \\ C_2^* = \frac{y}{3} \end{array} \right.$$

$$z = 1$$

$$\left\{ \begin{array}{l} C_1^* = \frac{y}{2} \\ C_2^* = \frac{y}{2} \end{array} \right.$$

$$u = c_1 \cdot c_2$$

$$z=2, u = \frac{2y^2}{9} + \frac{8y^2}{3b}$$

$$z=1, u = \frac{y}{2} \cdot \frac{y}{2} = \frac{y^2}{4}$$

$$\left\{ \begin{array}{l} \text{C.E. } z=1 \\ \text{P.O. } z=1 \end{array} \right.$$

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$$\left\{ \begin{array}{l} \text{P.O. } z=2 \end{array} \right.$$

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Why C.E. must be on the intersection of the b.c. & the R.C.

$$V + M_t = N_t \cdot (y - C_t)$$



$$V \cdot M_b = N_b \cdot C_2, \text{ etc.}$$

$$N \cdot C_2 + N \cdot C_1 = N \cdot y$$

$$C_1 + C_2 = y \rightarrow R.C.$$

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period 6 5 old  
10 young

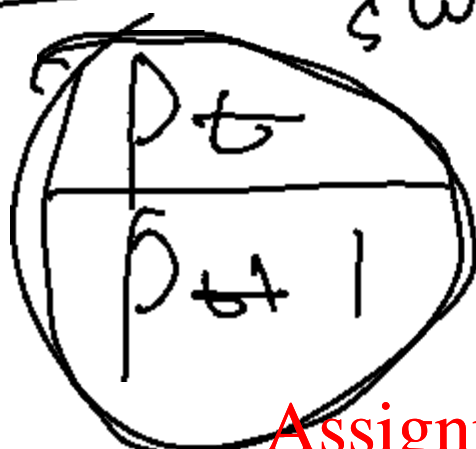
young gives 1 unit  
 of good  $\rightarrow$  old people

$\rightarrow$  each old will  
 receive 2 apples

Social planner  
slope of R.C.  $n = 2$

slope of b.c.  $\frac{n}{2} = \frac{V_{t+1}}{V_t}$

$\frac{V_{t+1}}{V_t} = 2$



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Price  $\downarrow$  by 30%

Money supply  $\downarrow$  by 50%

1 unit of good this  
good  $\rightarrow$  \$1

\$1 \rightarrow 2\$ units of  
goods

$$N_{t-1} \cdot a_t = (1 - \frac{1}{2}) V_t M_t$$

$\rightarrow$  old

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$u(c_1, c_2)$

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$\rightarrow$  GX

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