



# Lecture Recap

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- Demand for goods in an open economy:

$$Z \equiv C + I + G + X - IM/\epsilon$$



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## Marshall-Lerner Condition

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- ▶ Goods market equilibrium:

$$Y = C(Y, T) + I(Y, i) + G + NX(Y, Y^*, \epsilon)$$





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## Mundell-Fleming Model

- Under zero inflation and equal domestic and foreign price levels  $P = P^* \leftrightarrow E = \epsilon$ ,

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- LM curve:  $i = \bar{i}$  (real money supply adjust to clear money market  $M/P = YL(i)$ ).