Lecture Recap

(Exchange Rates)

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- Demand for goods in an open economy:

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

Lecture Recap

(Marshall-Lerner Condition)

Lecture Recap

Marshall-Lerner Condition

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- Net exports (NX) satisfy the Marshall-Lerner condition if $NX(\epsilon)$ is decreasing in ϵ.
- This condition implies that the substitution effect dominates the valuation effect.

Lecture Recap

(Mundell-Fleming Model)

Lecture Recap

Mundell-Fleming Model

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

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

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