

Hand-out week 8

This week:

7. Monetary Approach (cont'd):
 - 7.1. The short run
 - 7.2. The long run: change in expectations and sticky prices, exchange rate overshooting.
 - 7.3. Ongoing money supply expansion.
 - 7.4. Turning the model around: fixed exchange rates.
8. Currency Crises

Readings: Krugman&Obstfeld, chpts 14 and 15.

Practice problems:

1. K&O, problems 14.1. + 4. + 7.
2. Find the USD-DM exchange rate for each of the years 1980–90. Try to explain the so-called dollar cycle you observe with the tight monetary and lax fiscal policy under the first Reagan administration.
3. Suppose Europe's inflation rate is 2 percent, U.S. inflation 3 percent and Argentina's 100 percent. What do you expect to happen to the bilateral exchange rates between the euro, the dollar, and the peso.