

12/3 SHORT RUN FLOX

3

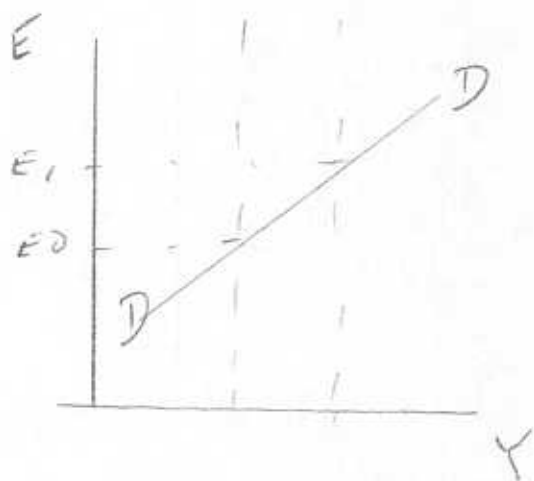
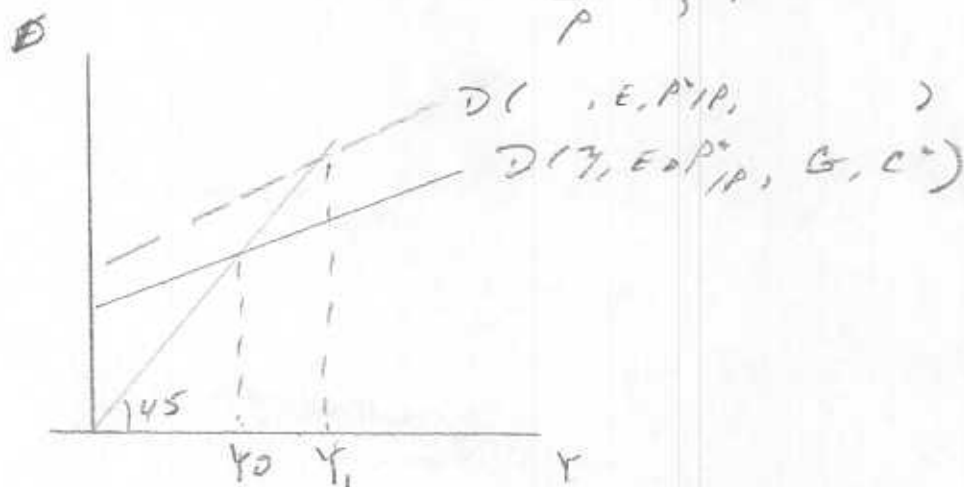
1

- SMALL OPEN ECONOMY
- INVESTMENT CONSTANT

$$Y = C(Y) + I + G + CA(EP^*, P, Y, C_Y^*)$$

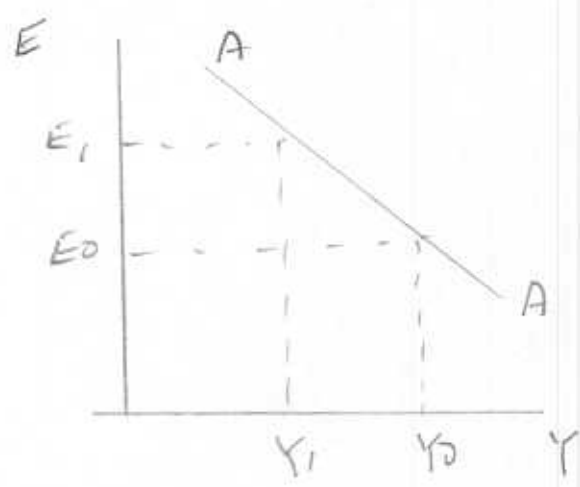
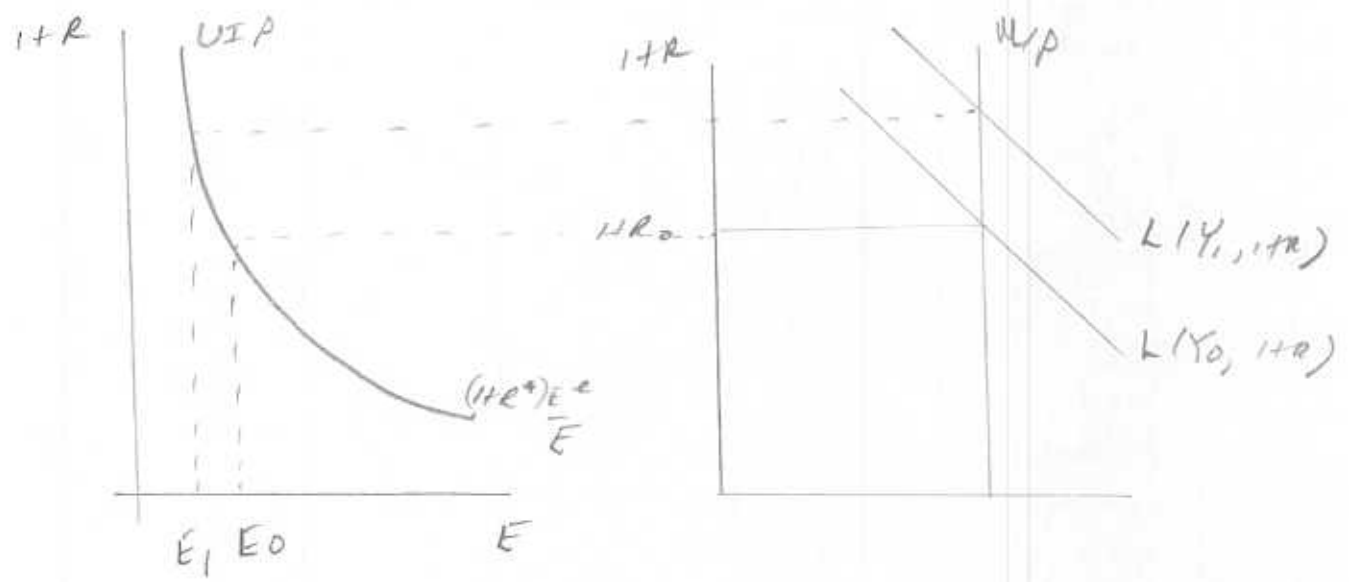
$$= D(Y, EP^*, P, G, C^*)$$

$$Y = C_Y(Y) + I + G + \frac{EP^* C_Y^*}{P}$$



SHIFT RIGHT if  $\uparrow G, C^*, P^* \downarrow P$

# Shift in Flow

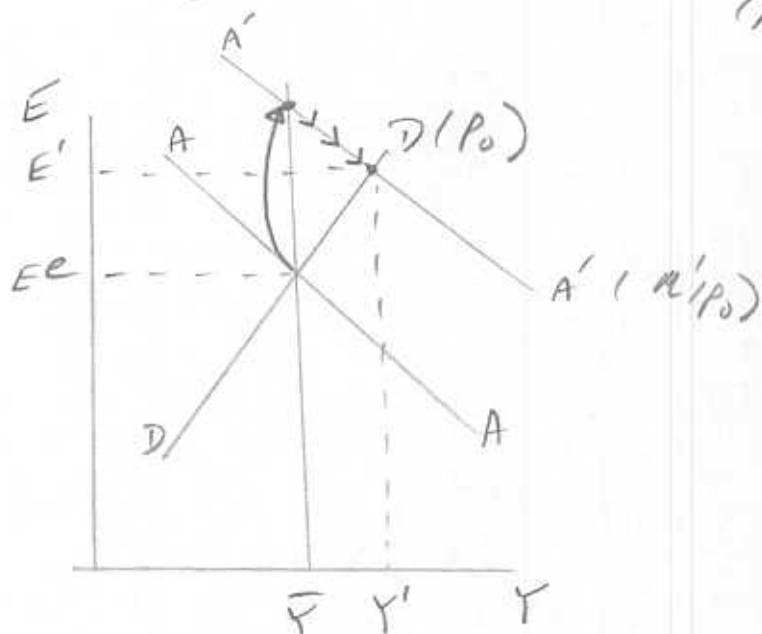


Shift Right if  $\uparrow M, E^e, R^* \downarrow P$

Short Run Flex

INCREASE IN MONEY

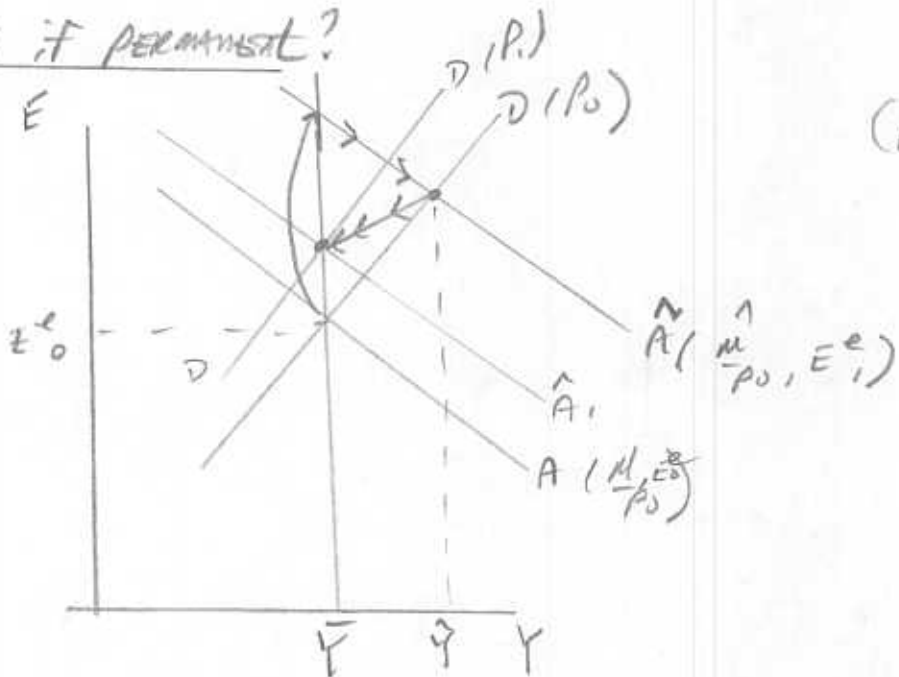
(p455 jump)



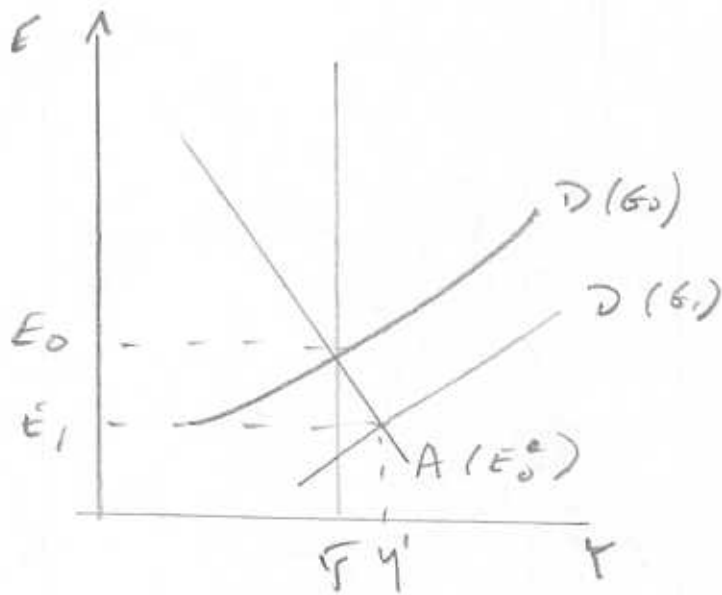
DEPRECIATION, EXPORT BOOM, RISE in  $Y$ , FALL in  $R$   
 what happens to  $OA$ ?  $OA$  surplus! ( $S(Y) \uparrow - I$ )

What if permanent?

(p463)



INCREASE IN G



Appreciate, Rise in R, CA Deficit (Fall Ex, Rise Im)  
Boom

INCREASE IN C<sup>\*</sup>

Appreciate, R in R, Boom, CA surplus