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## ECO 209Y MACROECONOMIC THEORY Solution to Problem Set 16 (Odd numbers only)

1. a) Let's find the value of $e$ :

$$
\begin{aligned}
& A D=A S \rightarrow 1000+100 \mathrm{M} / \mathrm{P}=1500 \rightarrow \mathrm{M} / \mathrm{P}=5 \rightarrow \mathrm{P}=\mathrm{M} / 5=30 / 5=6 \\
& \mathrm{ePf} / \mathrm{P}=3 \rightarrow \mathrm{e}=3 \mathrm{P} / \mathrm{P}^{\mathrm{f}}=3(6) / 8=18 / 8=2.25
\end{aligned}
$$

b) Let's find the value of M when $\mathrm{e}=6$ (and the real exchange rate is 3 ):
$\mathrm{ePf}^{\mathrm{f}} \mathrm{P}=3 \rightarrow 3 \mathrm{P}=\mathrm{ePf}^{\mathrm{f}} \rightarrow 3 \mathrm{P}=6(8) \rightarrow \mathrm{P}=48 / 3=16$
If $M / P=5$ from (1) above and $P=16$, then
$M=5(16)=80$

