

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

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

$$AD = AS \rightarrow 1000 + 100M/P = 1500 \rightarrow M/P = 5 \rightarrow P = M/5 = 30/5 = 6$$

$$eP^f/P = 3 \rightarrow e = 3P/P^f = 3(6)/8 = 18/8 = 2.25$$

b) Let's find the value of M when $e = 6$ (and the real exchange rate is 3):

$$eP^f/P = 3 \rightarrow 3P = eP^f \rightarrow 3P = 6(8) \rightarrow P = 48/3 = 16$$

If $M/P = 5$ from (1) above and $P = 16$, then

$$M = 5(16) = 80$$