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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: $AD = AS \rightarrow 1000 + 100M/P = 1500 \rightarrow M/P = 5 \rightarrow P = M/5 = 30/5 = 6$ $eP^{f}/P = 3 \rightarrow e = 3P/P^{f} = 3(6)/8 = 18/8 = 2.25$
 - 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