Answer sheet for exercise 2

$E_{lc/fc}$

$[i_H]$

E_0*

$[i_{EU}]^e$

i_H; lc-returns

i_0*

Money mkt

$[MS_0/P_0]_H$

$L(i,Y_0) = [MD_0/P_0]_H$

$E_{lc/fc}$

AA_H DD_H

E_0*

Y_0 Y

$[i_H]$

IS_H LM_H

BP_H

i_0*

Y_0 Y

$E_{lc/fc}$

$[i_H]$

E_0*

$[i_{EU}]^e$

i_H; lc-returns

i_0*

Money mkt

$[MS_0/P_0]_H$

$L(i,Y_0) = [MD_0/P_0]_H$

$E_{lc/fc}$

AA_H DD_H

E_0*

Y_0 Y

$[i_H]$

IS_H BP_H

LM_H

i_0*

Y_0 Y

Top panel

Left diagram (money market / UIP):

$E_{lc/fc}$

$[i_H]$

E_0*

$[i_{EU}]^e$

i_H; lc-returns

i_0*

Money mkt

$[MS_0/P_0]_H$

$L(i,Y_0) = [MD_0/P_0]_H$

Right diagrams (AA-DD and IS-LM-BP):

$E_{lc/fc}$

AA_H

DD_H

E_0*

Y_0

Y

$[i_H]$

IS_H

LM_H

BP_H

i_0*

Y_0

Y

Bottom panel

Left diagram (money market / UIP):

$E_{lc/fc}$

$[i_H]$

E_0*

$[i_{EU}]^e$

i_H; lc-returns

i_0*

Money mkt

$[MS_0/P_0]_H$

$L(i,Y_0) = [MD_0/P_0]_H$

Right diagrams (AA-DD and IS-LM-BP):

$E_{lc/fc}$

AA_H

DD_H

E_0*

Y_0

Y

$[i_H]$

IS_H

BP_H

LM_H

i_0*

Y_0

Y