

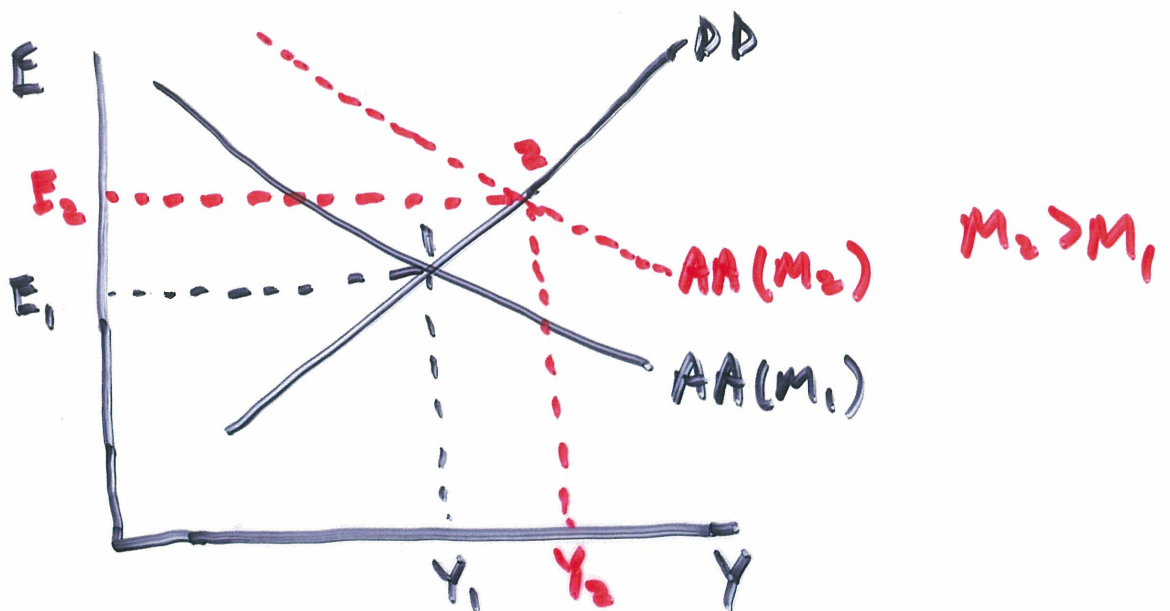
Topics for Today

- 1.) Temporary Changes in Monetary + Fiscal Policies
- 2.) Stabilization Policy
 - Monetary or Fiscal?
- 3.) Permanent Changes in Monetary + Fiscal Policies
 - Dynamic Adjustment
- 4.) Some Practical Difficulties with Stabilization Policy

Monetary + Fiscal Policies

① Temporary Policy : Reversed before price level adjusts . No effect on E^e .

Temporary Monetary Policy ($M \uparrow$)



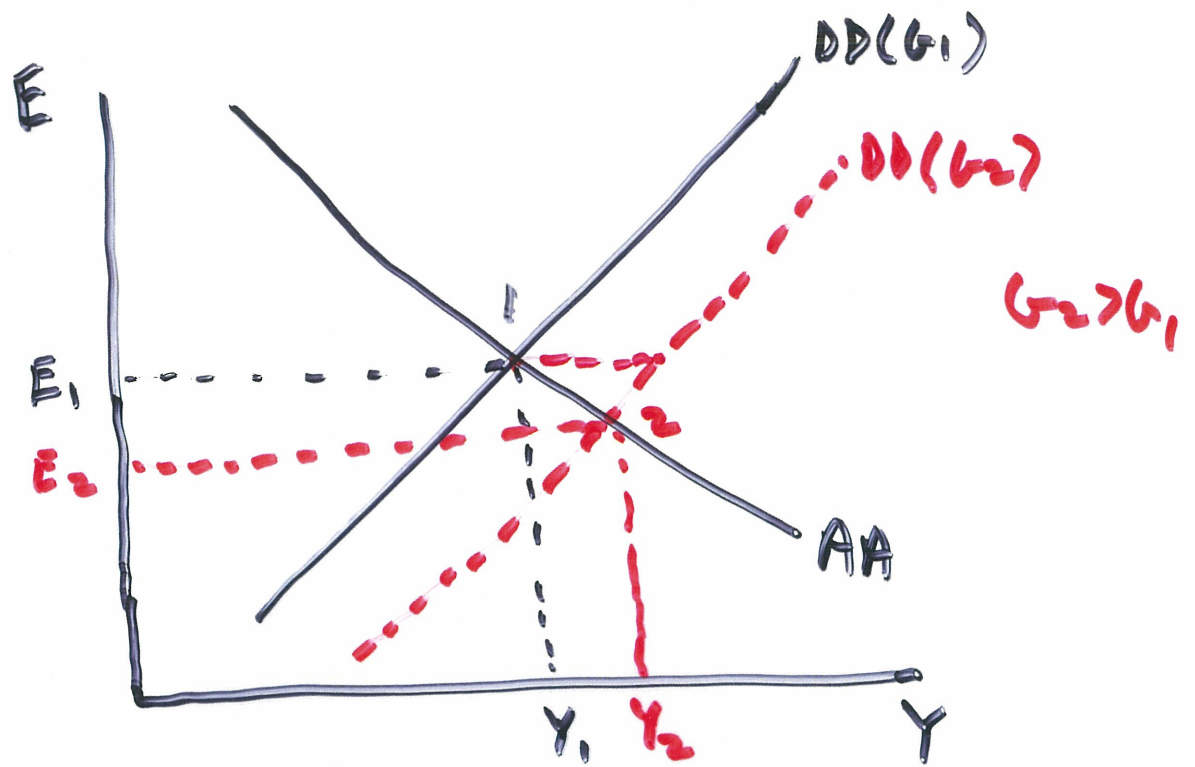
$M \uparrow \Rightarrow R \downarrow \Rightarrow E \uparrow \Rightarrow NX \uparrow \Rightarrow Y \uparrow$

money market equil.


fx market equil.


goods market equil.

Temporary Fiscal Policy ($G \uparrow, T \downarrow$)



$G \uparrow \implies Y \uparrow \implies R \uparrow \implies E \downarrow$


 goods
 mkt.
 equil.


 money
 mkt.
 equil.


 fx mkt.
 equil.