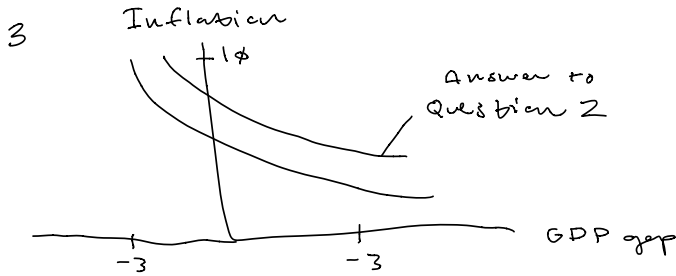


4th Homework Assignment



GDP gap = 0
long run = 3%

MVI

Homework Assignment

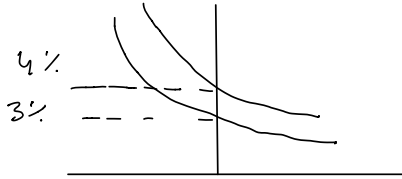
- 1 a) the slope will be 1 ^{interest} real rate on policy 1 & 2
- b) inflation is at 2% (1%), (3%)
- c) the z line is gonna ↓ shift down
- d) the adi curve shifts left because the z line shifts down because of the change in monetary policy
- e) No, because the slope is = to 1 because the r_i stays constant

- 2 a) shift the adi to left cos z line goes down
- b) shift to the left aggregate demand
- c) lower rate to cause adi to shift left
- d) save more (weaken)
- e) if things go up ↑ $\frac{1}{2}$ Canadian dollar exports ↑ imports ↓ net exports ↑ spending increases adi curve to shift to the right

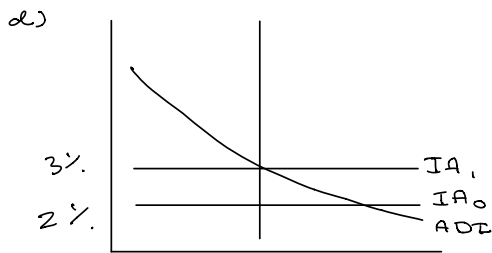
Adi will be vertical

The less sensitive interest rate to spending the steeper the adi curve

- 3 a) 3% - the average rate of inflation
 b) shifts up the rate of inflation at potential



- 4 a) horizontal cross the 0 point at 2%.
 b) Up, above potential unsustainable which cause it to increase
 c) positive gap, adu will shift up, 3%



- e) the inflation adjustment line would shift up