Lecture 24: Devaluations in an AD-AS framework

- Current events (FT 12/01/99)
- Review
  - AD-AS in an open economy

AD-AS in Open Economy

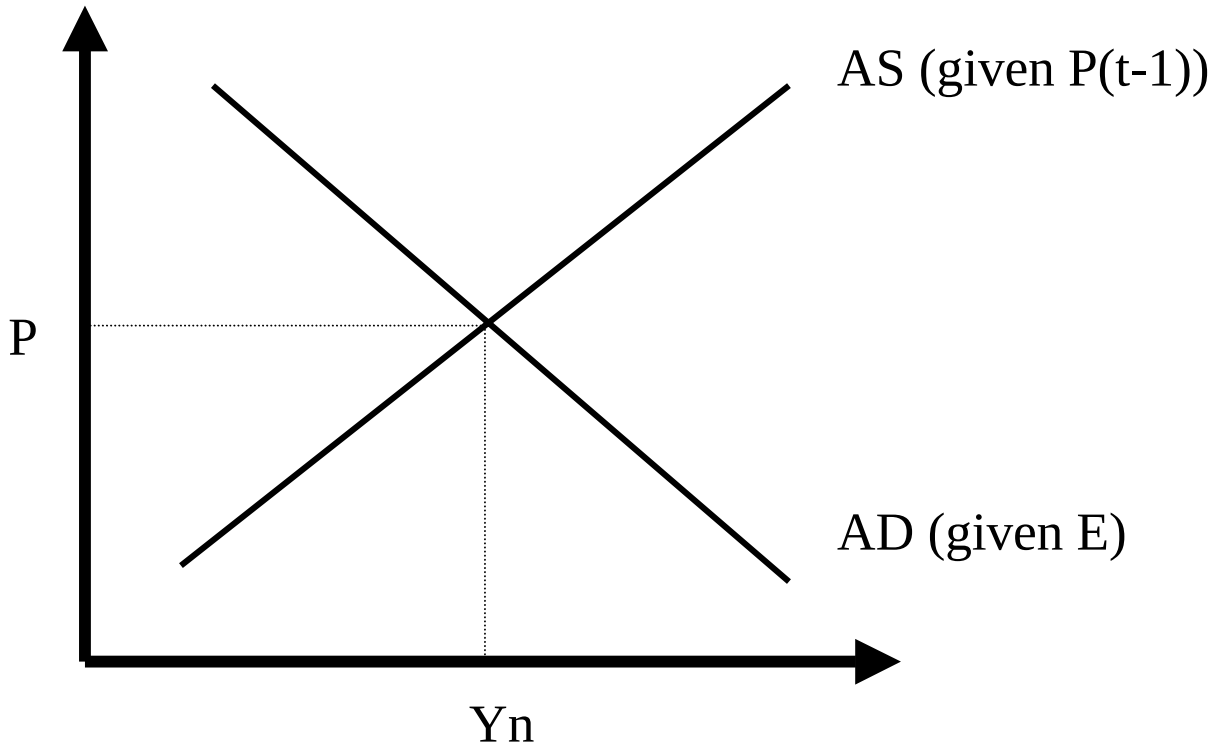
$$i = i^* + \frac{E^e - E}{E}$$

infl. Approx = 0 / disregard dynamics

$$Y = C(Y-T) + I(Y,i^*) + G + NX(Y,Y^*, \frac{E\,P^*}{P})$$

$$Y = Y(\overset{+}{\frac{E\,P^*}{P}}, \overset{+}{G}, \overset{-}{T})$$

$$P(t) = P(t-1)\,(1+\mu)\,F(1-\frac{Y(t)}{L}, z)$$



Devaluation dynamics / Adjustment to an Overvaluation / Costs (expectations)

Figures 19-4 and 19-5

Growth

- Facts: Figure 22-1 / table 22-1 / fig 22-2
- Sources of growth (per/capita): Capital accumulation / Technological progress
- $Y = F(K,NA)$ h.d. 1
- $y = (Y/NA) = F(K/NA,1) = f(k)$
- figure 22-5

Solow’s Growth Model

$A = 1, N = ct$

$y = f(k)$

$S = sY$

$I = S$

$K(t+1) = (1-d)\, K(t) + I(t)$
=>
$k(t+1) - k(t) = s\, f(k(t)) - d\, k(t)$

Figure 23-2