LECTURE 8
REVIEW OF OPEN-ECONOMY IS-MP AND THE AD-IA FRAMEWORK
FEBRUARY 14, 2013

I. OVERVIEW
   A. Closed economy IS-MP or IS-LM appropriate for some questions
   B. For postwar fluctuations, useful to include open economy and inflation adjustment

II. OPEN-ECONOMY IS-MP WITH FLEXIBLE EXCHANGE RATES
   A. Preliminaries
   B. Another piece of planned expenditures: net exports (NX)
      1. What determines NX?
      2. Key relationship between NX and net capital outflows (CF)
      3. What determines CF?
   C. How does including international factors change IS-MP?
   D. Application: An expansionary change in the monetary policy rule

III. AGGREGATE DEMAND (AD)
   A. Working toward a model of inflation and output determination
   B. Deriving the AD curve from the IS-MP framework
   C. What shifts the AD curve?

IV. INFLATION ADJUSTMENT (IA)
   A. Behavior of inflation
   B. IA curve
   C. Short-run equilibrium
   D. Transition to long-run equilibrium

V. EXAMPLE: A DECREASE IN GOVERNMENT PURCHASES
   A. Effect in IS-MP framework
   B. Effect in the AD-IA framework
   C. Return to long-run equilibrium
   D. Where do we end up?