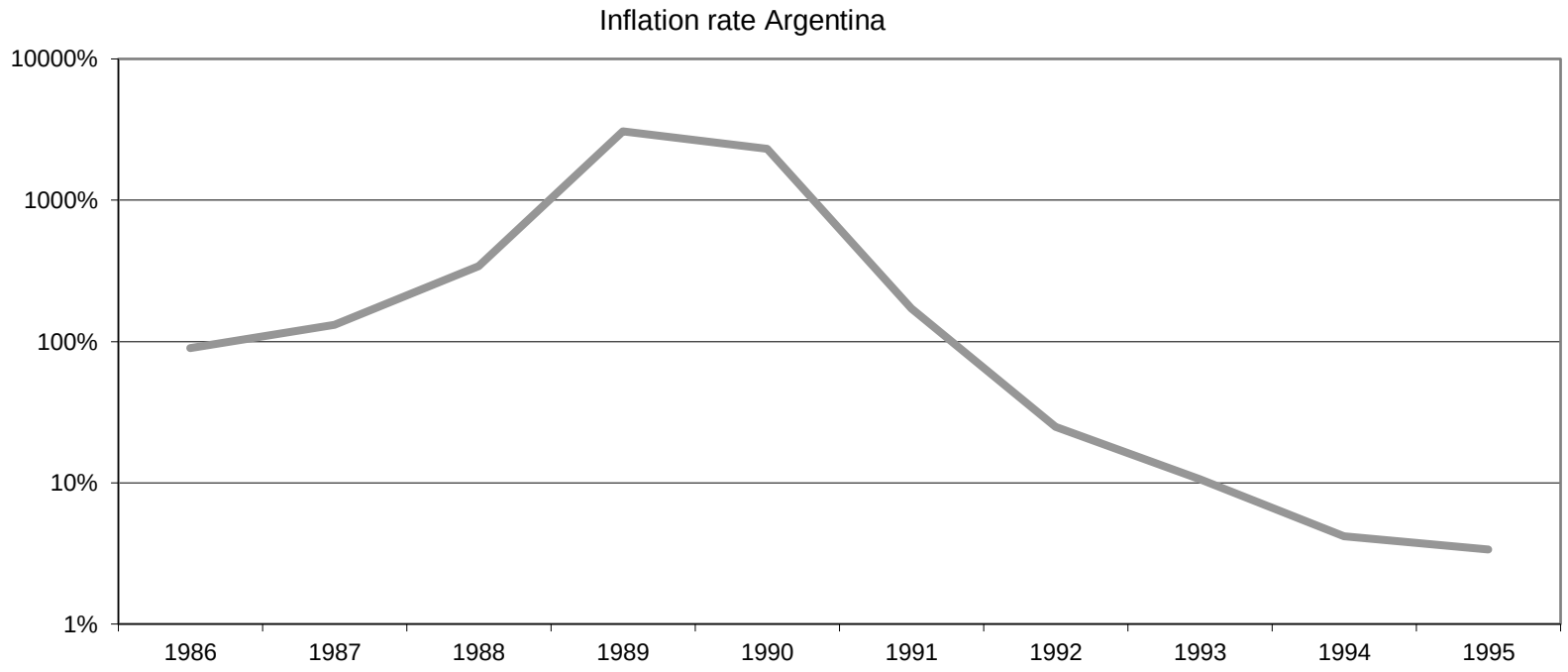
Problem 5.2

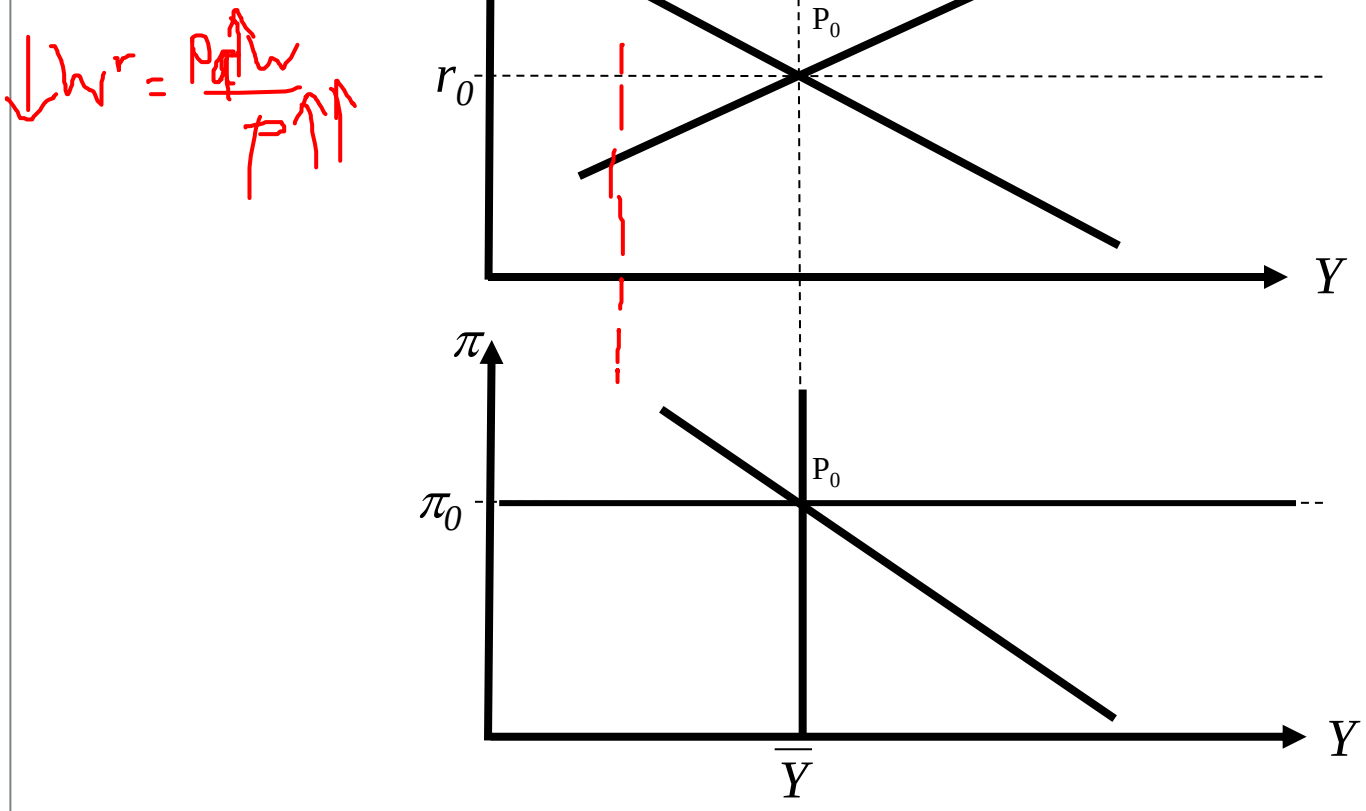


MP crawling peg ($\pi \neq \pi_a$) $w^r_{+1} = w^r$

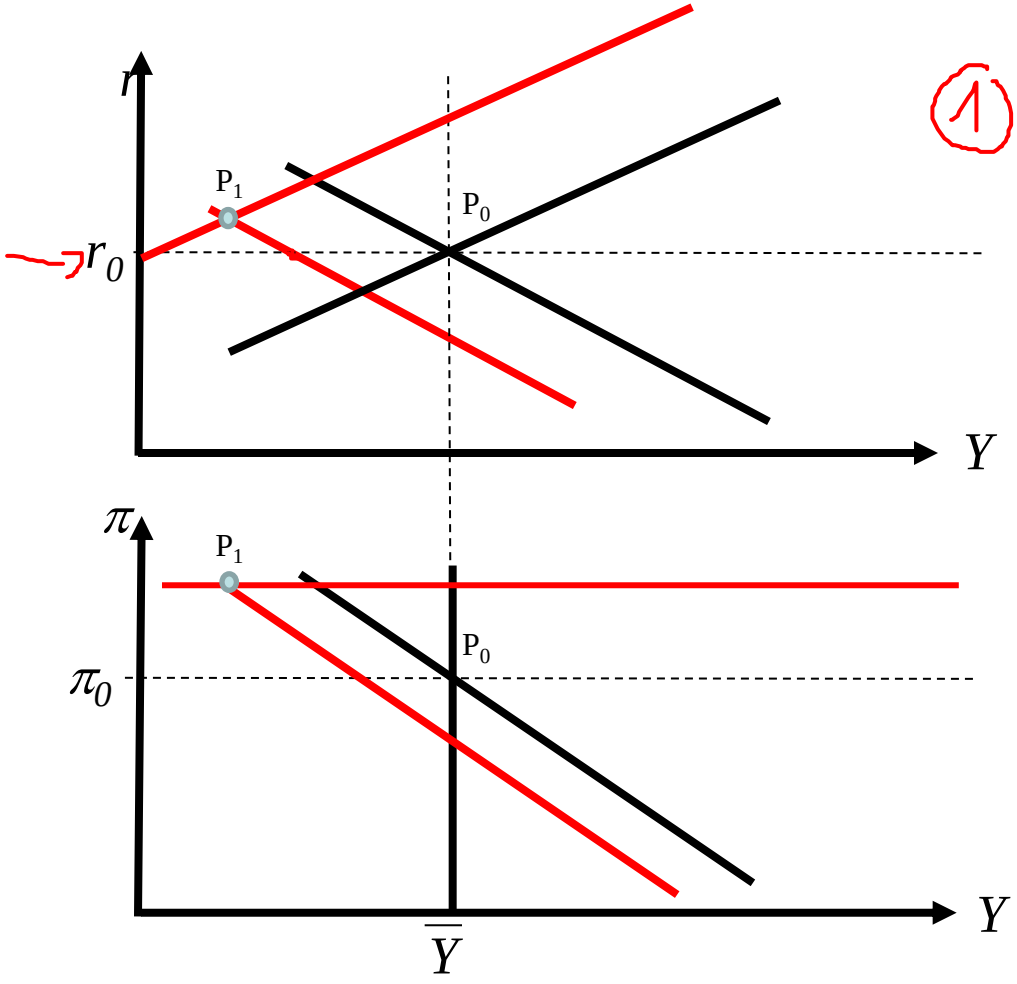
IS P_0 $\boxed{w^r_{+1} \neq w^r}$

IA P_0 $w^r_{+1} = w^r$

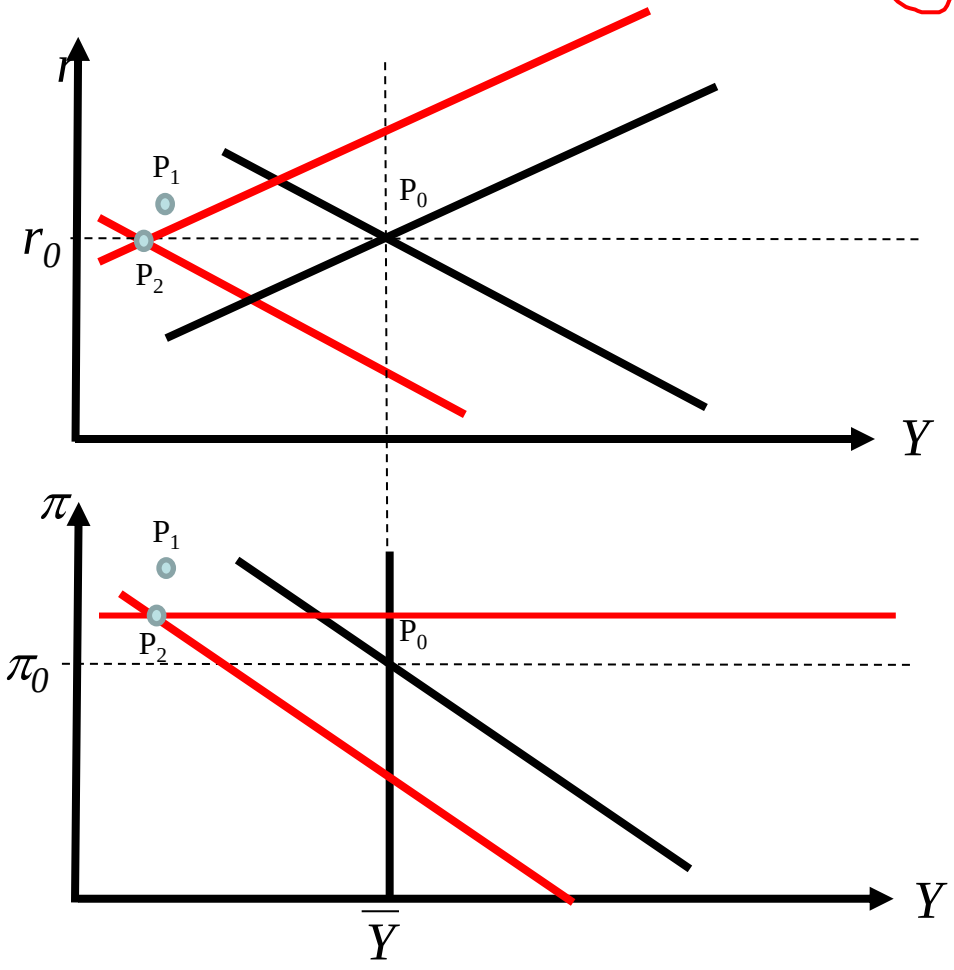
5.2) Period 0



5.2) Period 1



5.2) Period 2



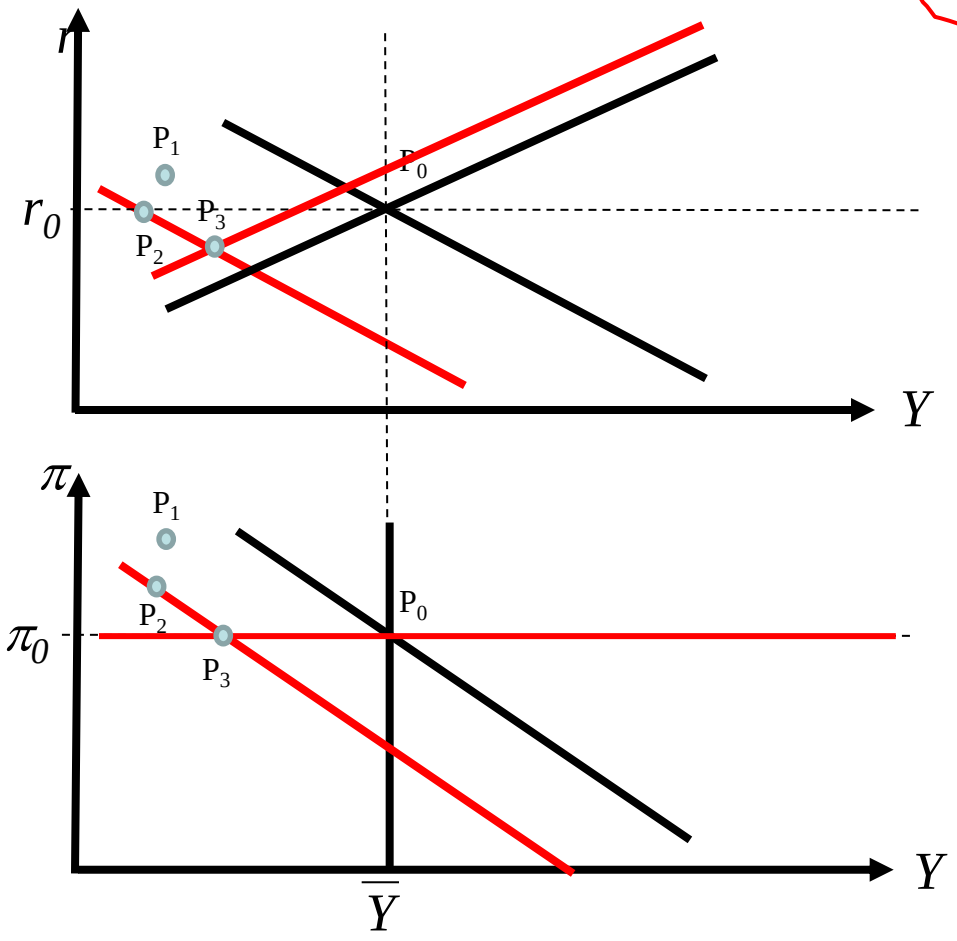
② $Y < \bar{Y} \Rightarrow \pi \downarrow$

IA↓ MP↓

$\pi > \pi_0 \rightarrow wr \downarrow$

IS↓ AD↓

5.2) Period 3



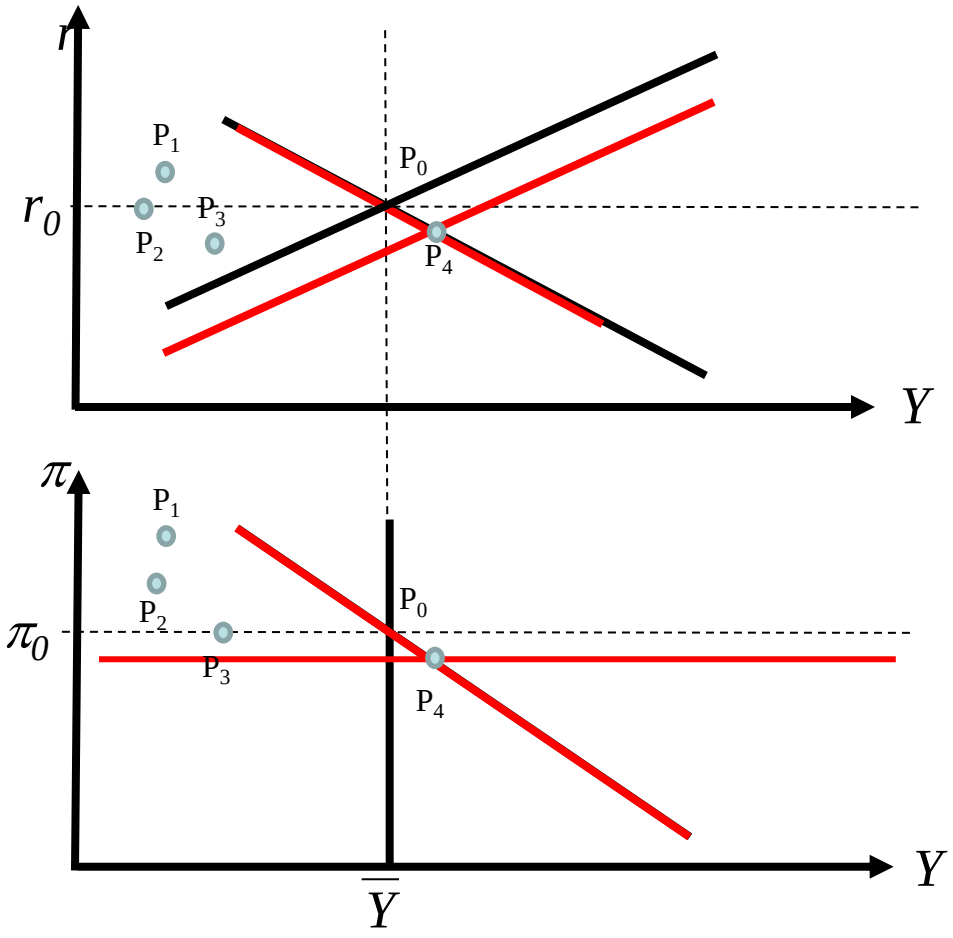
③ $Y < \overline{Y} \Rightarrow \pi\downarrow$

$IA\downarrow MP\downarrow$

$\pi = \pi_a$

$IS + AD$ const.

5.2) Period 4



④

$Y < \overline{Y} \Rightarrow \pi \downarrow$

IAMP ↓

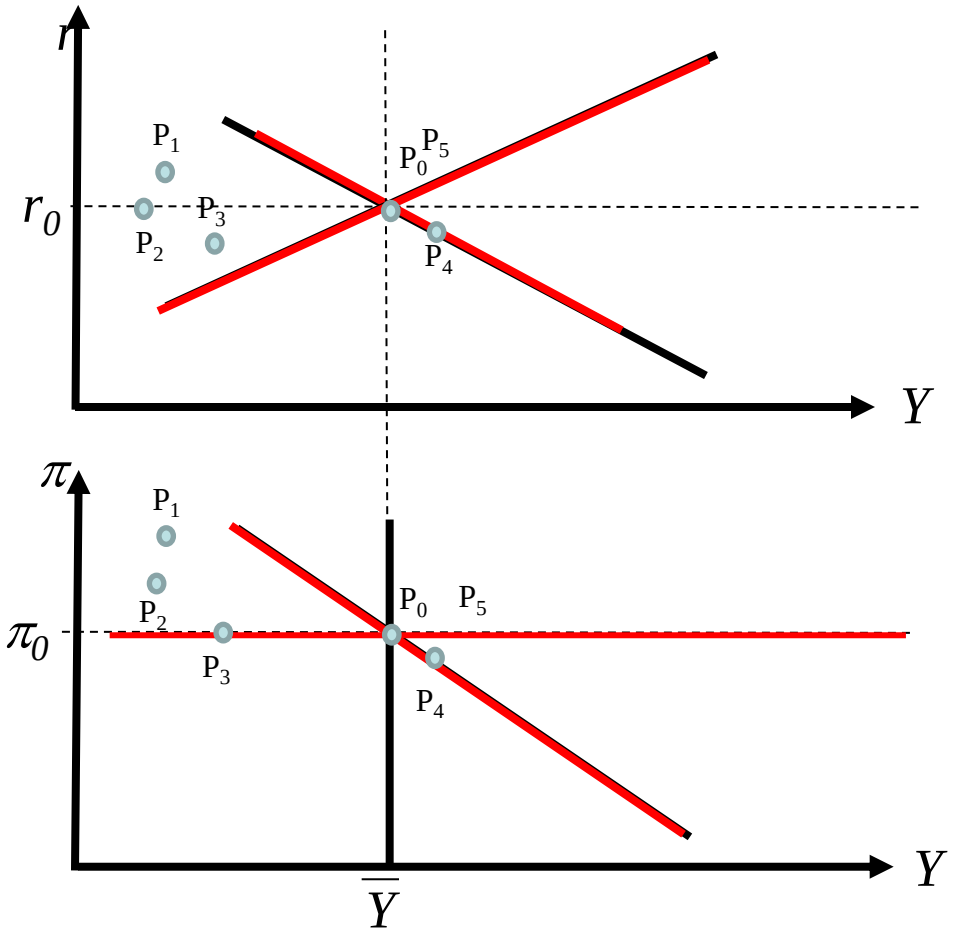
$\pi < \pi_e \Rightarrow w r \uparrow$

ISTAD

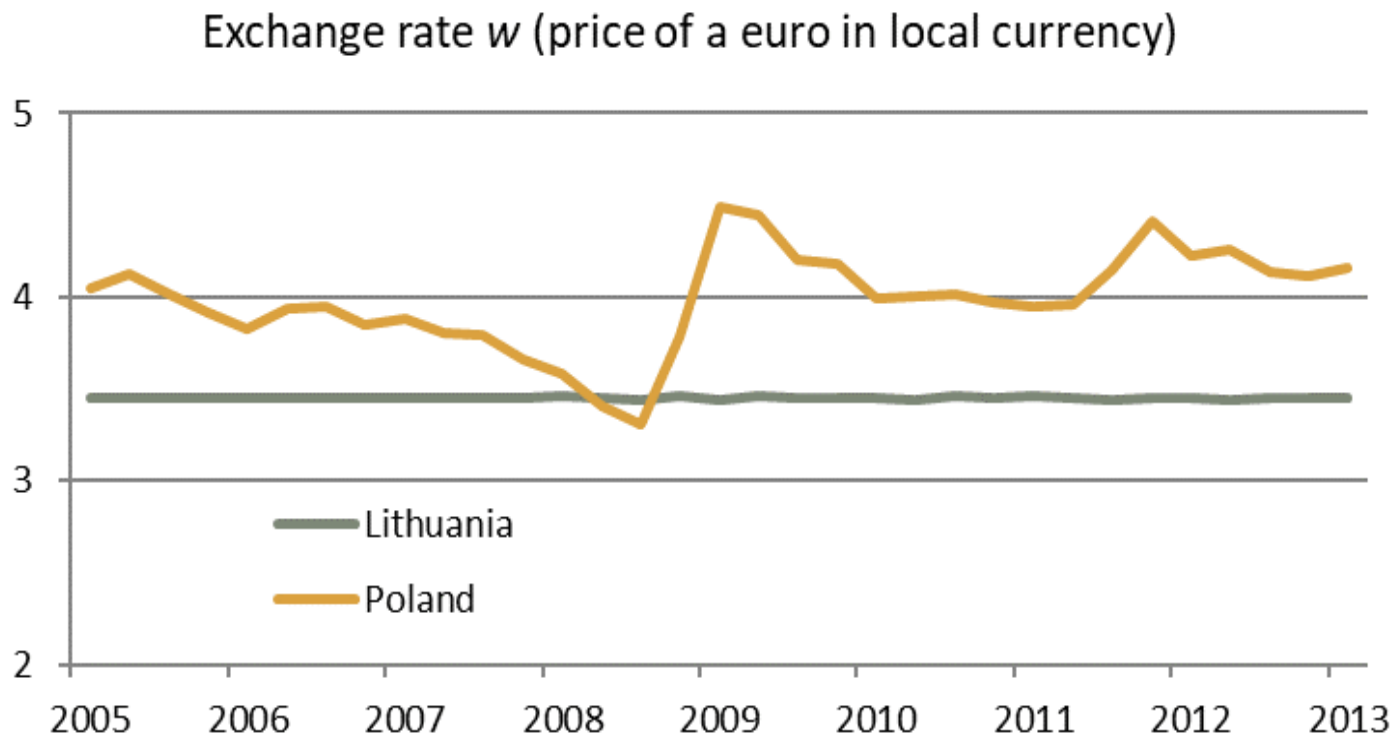
⑤ $Y > \overline{Y} \Rightarrow \pi \uparrow$

IAMP ↑

5.2) Period 5



Problem 5.4


Exchange rate w (price of a euro in local currency)
5
4
3
2
Lithuania
Poland
2005
2006
2007
2008
2009
2010
2011
2012
2013

5.4)

ass: r_a constant

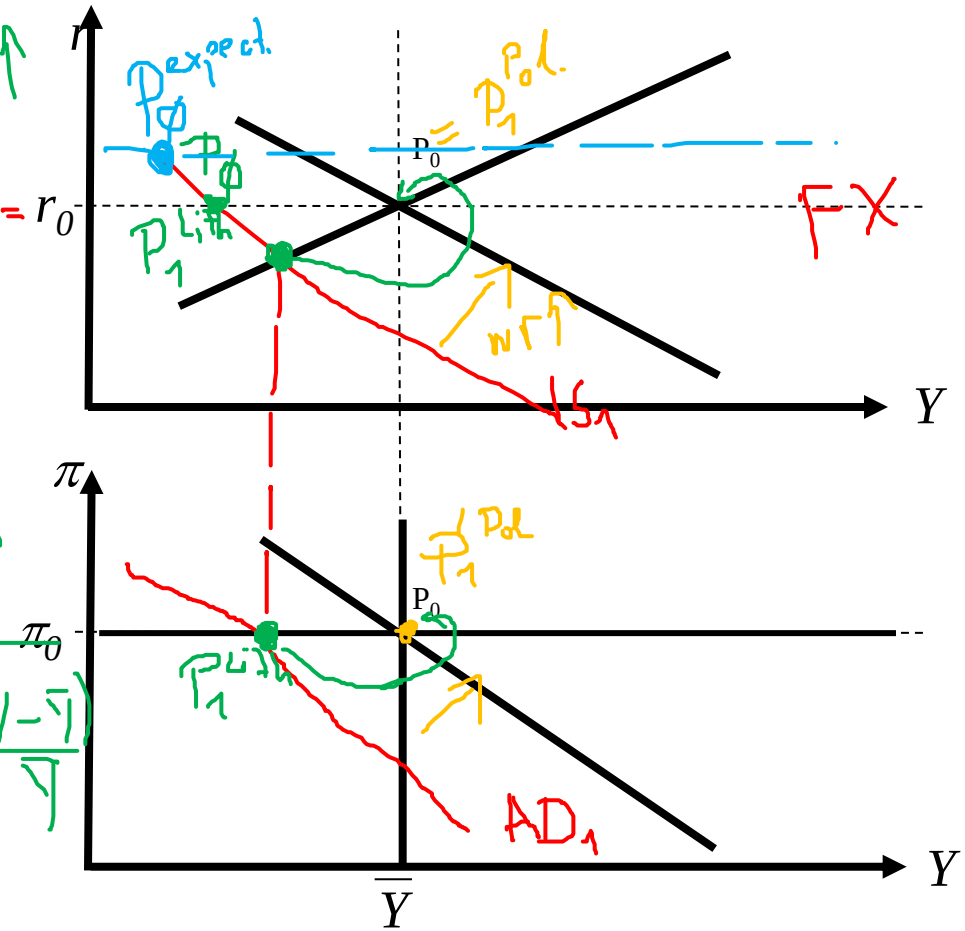
$r < r_a \Rightarrow$ dem $\in \uparrow$

$\bar{w}$ $R\downarrow$ $F\uparrow$

$Y < \bar{Y} \Rightarrow \pi \downarrow$ $r_a = r_0$

$\boxed{\uparrow w^r} = \frac{\uparrow P_a \bar{w}}{P \uparrow}$

internal depreciation



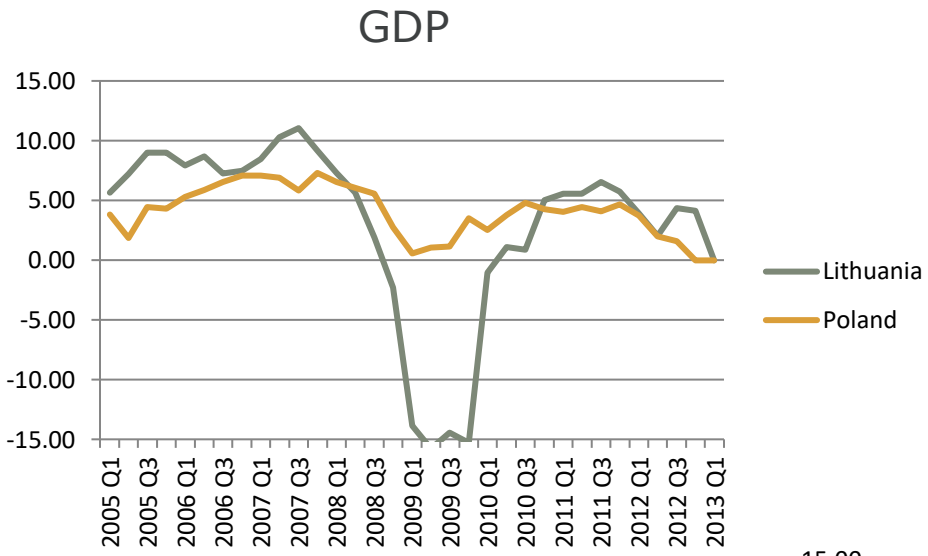
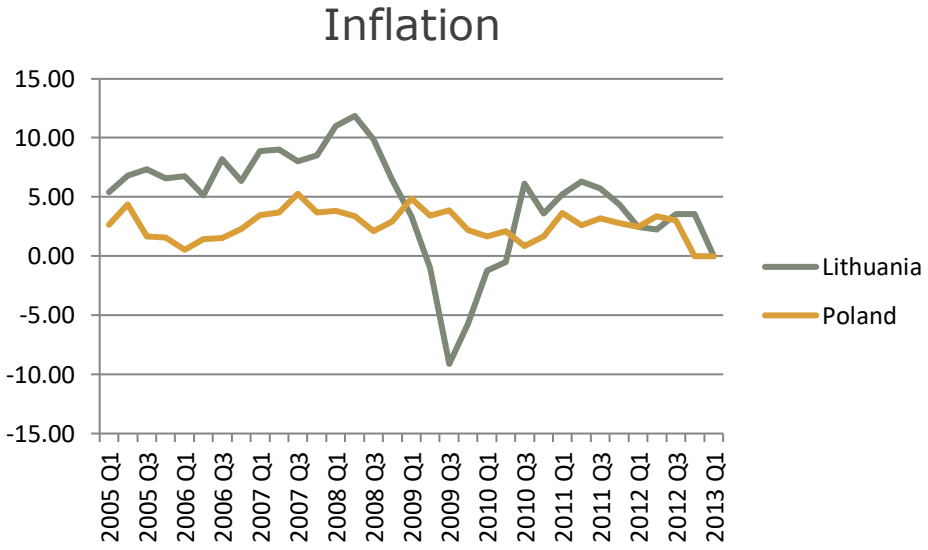
$w \uparrow \rightarrow \boxed{w^r \uparrow}$

$IS \uparrow AD \uparrow$

P_0

ext. depreciation

$\boxed{\frac{w^r_{+1}}{w^r} > 1}$

$\pi = \pi_{-1} + \delta\left(\frac{Y - \bar{Y}}{\bar{Y}}\right)$

Poland and Lithuania