

Some Chapter 3 Practice Problems

1. Linearize the following equation:

$$\Pi_t = E_t[\Pi_{t+1}^\beta Y_t^\kappa] \quad (1)$$

2. Now linearize this equation:

$$Y_t = E_t \left[\frac{R_{t+1}}{L_{t+1}} \right] - Y_{t-1}^{\frac{1}{3}} \quad (2)$$

3. Suppose that $\epsilon \rightarrow \infty$. How would this affect the response of Y to changes in inflation. Provide intuition for your result.

4. Draw a picture of the Calvo Fairy eating Chicken Wings while wearing a sweater-vest. Provide intuition for your result.