

ECO 318, Winter 2019, HW #5

1. Suppose that the monetary authority uses the following policy rule:

$$i_t = \rho + \phi E_t[\pi_{t+1}] \quad (1)$$

a. Using the model of Chapter 2, determine the condition for determinacy of equilibrium.

b. Translate your answer to part *a* into a specific policy prescription for a Central Bank.

2. Repeat parts 1a. and 1b. for the following policy rule:

$$i_t = \rho + \phi y_t \quad (2)$$