

Do NOT write your name anywhere. (Canvas will tell me who turned in the assignment.) Take pictures of your answers and use your own software or <https://pdfcandy.com/> to create a single PDF. (pdfcandy.com will convert JPG to PDF, resize PDF, merge PDF and just about anything else you can think of with a PDF for free.) Failure to follow these directions will cost you 10 points.

Note that I redefined R as $\text{€}/\text{\$}$ rather than the book's $\text{\$/€}$. This means that some of equations are flipped upside-down. I did this because it would agree with ECON 350. Similarly, I put $*$ on EA and RP because they are expected appreciation of the foreign currency and the risk premium of the foreign currency. Another note, near the beginning of Chapter 15, the author uses D & F as the domestic and foreign parts of the monetary base. Most of the way through the chapter, they use D & F as demand for domestic bonds and foreign bonds respectively.

- 1) (10 points) Write my equation for absolute PPP. Explain why it makes sense.
- 2) (20 points) Why doesn't absolute PPP hold? Explain two reasons.
- 3) (15 points) Write my equation for relative PPP. Explain why it makes sense.
- 4) (15 points) Remember explain equations from ECON 302. Well, explain the following equation. $i - i^* = EA^* - RP^*$. (Try typing that equation in Word. It does not like i .)
- 5) (10 points each) On Page 419, the book has three demand functions. What is the relationship between the two variables in each part? Why do they have that relationship?
 - A) $M = f(i^*)$
 - B) $D = f(Y)$
 - C) $F = f(P)$
 - D) $M = f(W)$