

"The main purpose in studying economics is to avoid being fooled by economists." -Joan Robinson

**Eco300 Macroeconomic Theory**  
**09/25/2018 in-class activity**

Suppose  $V$  is constant,  $M$  is growing 5% per year,  $Y$  is growing 2% per year, and  $r = 4$ .

- a. Solve for  $i$ .
  - b. If the Fed increases the money growth rate by 2 percentage points per year, find  $\Delta i$ .
  - c. Suppose the growth rate of  $Y$  falls to 1% per year.
- What will happen to  $\pi$ ?
  
  - What must the Fed do if it wishes to keep  $\pi$  constant?