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Errata in Study Guide to Macroeconomics by Jagdish Handa

CHAPTER 4,

Page 26, Q5. The slope of the IS curve is given by:

$$\begin{aligned}\frac{\partial r}{\partial y} &= \frac{1}{\partial y / \partial r} = -\frac{1}{\alpha i_r} \\ &= -\frac{1 - c_y(1 - t_y)}{i_r}.\end{aligned}$$

[Note: the ratio on the right hand side is preceded by a negative sign.] An increase in the marginal propensity to consume c_y will decrease the numerator of the slope while keeping the denominator unchanged, so that the magnitude in absolute terms of the slope will decrease [note: not increase]. As a result, the increase in private expenditures will make the IS curve flatter, as shown in Figure 4.5.

CHAPTER 5

Note: The answers to Questions 10 to 12 are not included in this Study Guide.

CHAPTER 6,

Page 55, Q T2 (c): Correct the last line, which was: $y = 2,572.04 - 1,370.61 P$, to:

$$y = 2,655.82 - 1,369.71/P$$

CHAPTER 7,

Page 67, **Basic AS model for Chapter 7:** For the supply structure of the economy, the production function in the textbook is $y = 10n - 0.1n^2$. For the answers in the Study Guide, it should be changed to:

$$y = 10n - 0.01n^2.$$

The answers in the Study Guide to Q T2 to QT4 are based on the preceding production function.

[Note: For the original (i.e., in the book) production function, the answers to QT2 would be:

$$MPL = 10 - 0.2 n^d$$

$$\begin{aligned}w &= 5 \\n &= 25 \\y &= 187.5.\end{aligned}$$

Page 70, Q5: Note: the production function for the Revised Model used in the answers to Q5 is the one that is specified in the textbook.

(a) In the answer to Q5 (a), change $y = 42,105,258.80 - 105.26P$, to:

$$y = 42,150,258.80 - 105.26P$$

Page 70, Q5 (d): The AD function from the preceding question is:

$$y = 42,150,258.80 - 105.26P$$

Equating LRAS and AD, we get:

$$37,500,000 = 42,105,258.80 - 105.26P$$

$$P^* = 43,751.27$$

Page 71, Q6 (b): However, fiscal policies can change the LR equilibrium interest rate, while monetary policies cannot do so. If the central bank sets the interest rate, it may do so at a different level than the LR one, which would create a divergence between the current interest rate and the LR one.

CHAPTER 9

Page 104, QT7. [Optional] DELETE THIS QUESTION FROM THE BOOK AND ITS ANSWER FROM THE STUDY GUIDE.

Page 106, QT8. [Optional] DELETE THIS QUESTION FROM THE BOOK AND ITS ANSWER FROM THE STUDY GUIDE.

CHAPTER 10

Page 120, QT7: Note: The answers in the Study Guide to this question are based on the EAPC function:

$$u_t = 0.06 - 0.5(\pi_t - \pi_t^e)$$

[The preceding EAPC function differs from the one specified in the textbook. That function was: $u_t = 0.06 - 0.005(\pi_t - \pi_t^e)$.]

CHAPTER 12

Page 138, Q8: Replace the following (first sentence of paragraph 2) 'If the exchange rate is flexible, the elasticity of net exports (especially in the short term) could be less than unity, in which case a balance of payments deficit would produce an appreciation and a balance of payments surplus would produce a depreciation, but not an elimination of balance of payments surpluses and deficits. Additional reasons include lags in the adjustment of exports and imports.' by:

'To start, assume that the country has a balance of payments deficit. If the exchange rate is flexible, this deficit will cause a depreciation of its currency. If the elasticity of net exports (a possibility in the short term) were less than unity, the depreciation would reduce net exports, which would produce an increase in the deficit, rather than its elimination or reduction. This increase in the deficit would cause a further depreciation of the exchange rate. Similarly, if there is initially a surplus and the elasticity of net exports is less than unity, an appreciation would increase the size of the surplus, not eliminate or reduce it. [Note that the relevant analysis here is that of the downward sloping part of the J curve for net exports.] Additional reasons for continuing balance of payments deficits or surpluses include various kinds of lags in the adjustment of exports and imports.'