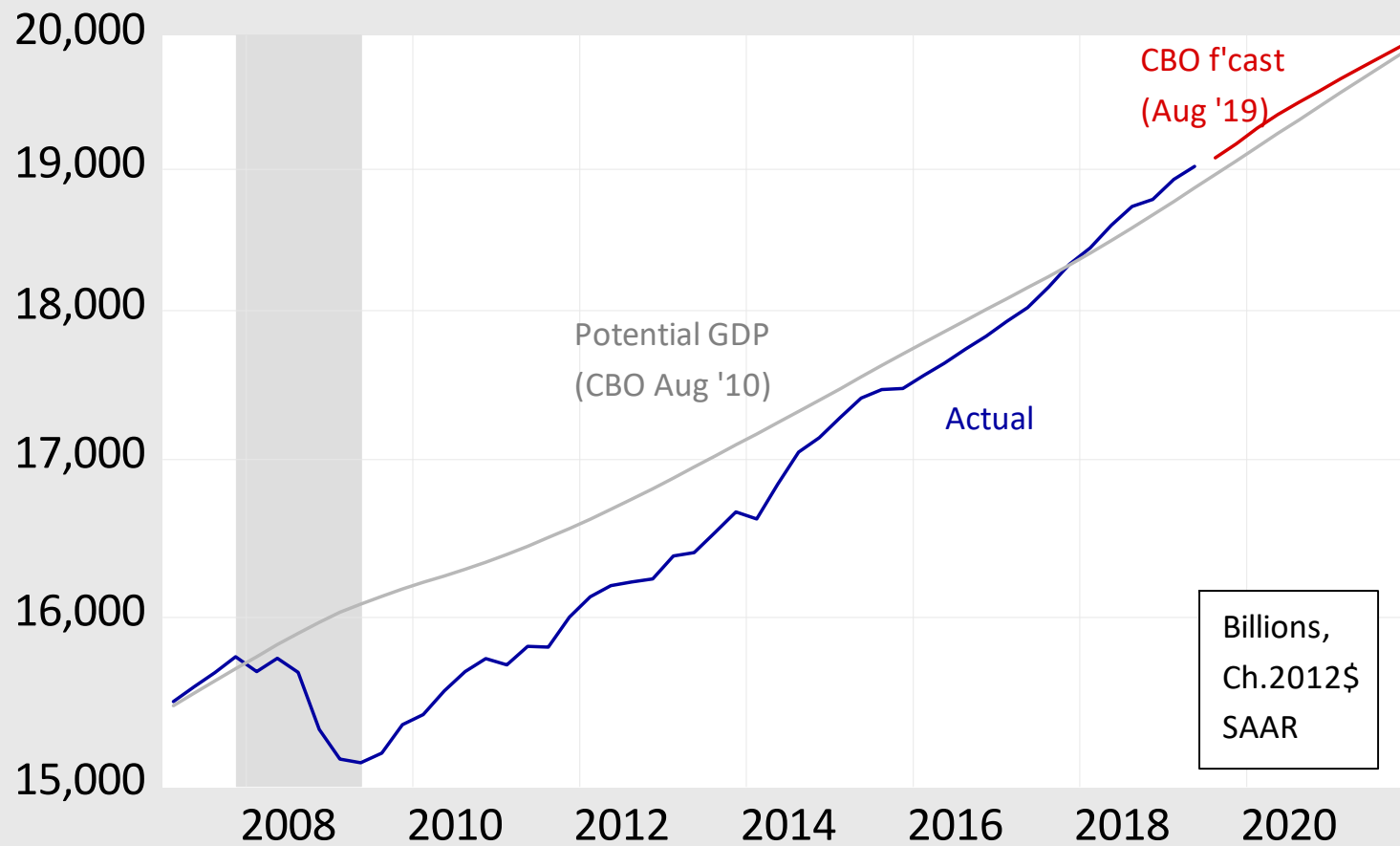


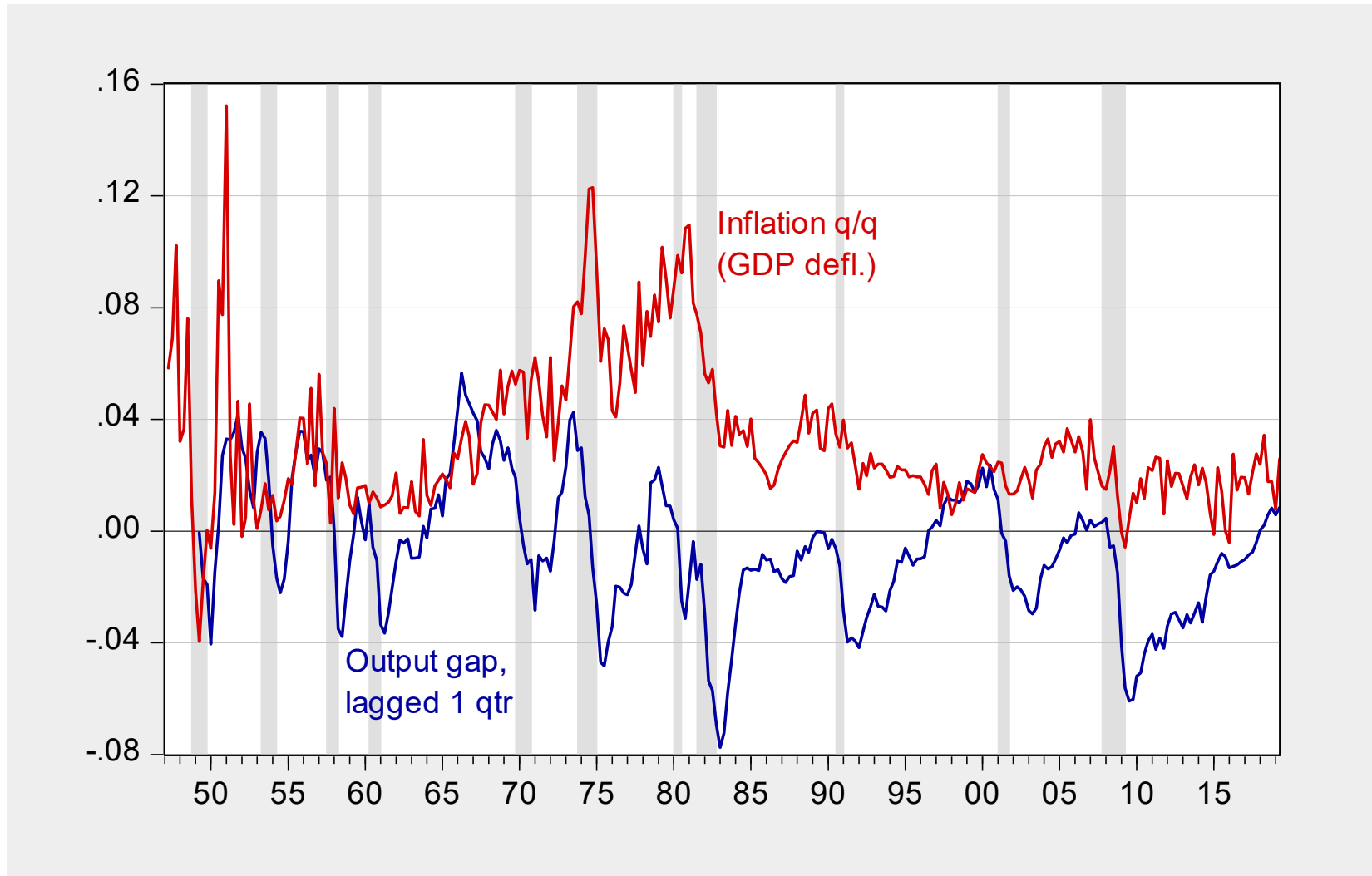
Economics 435
The Financial System
(9/30/2019)

Instructor: Prof. Menzie Chinn
UW Madison
Fall 2019

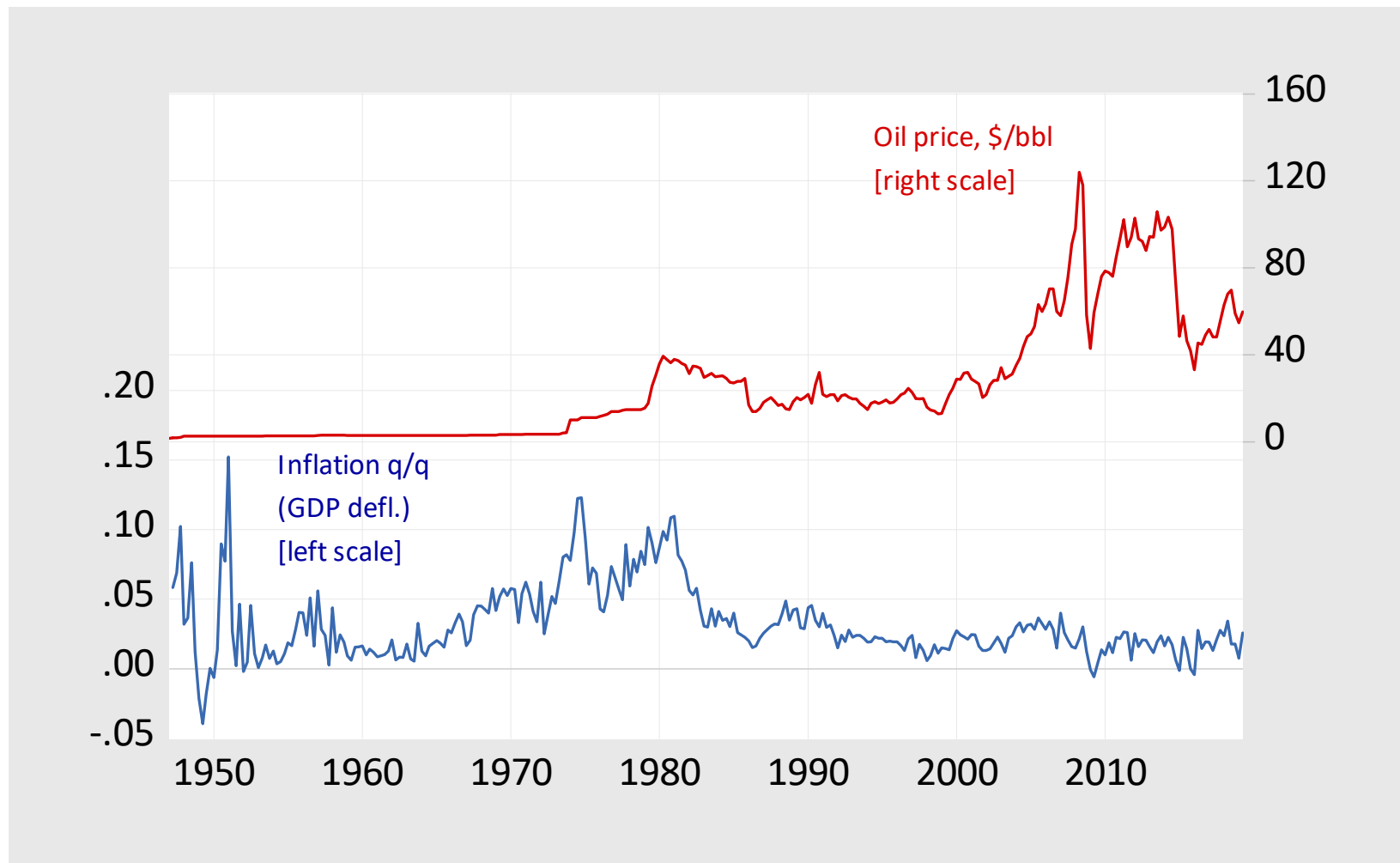
Output Gap Defined

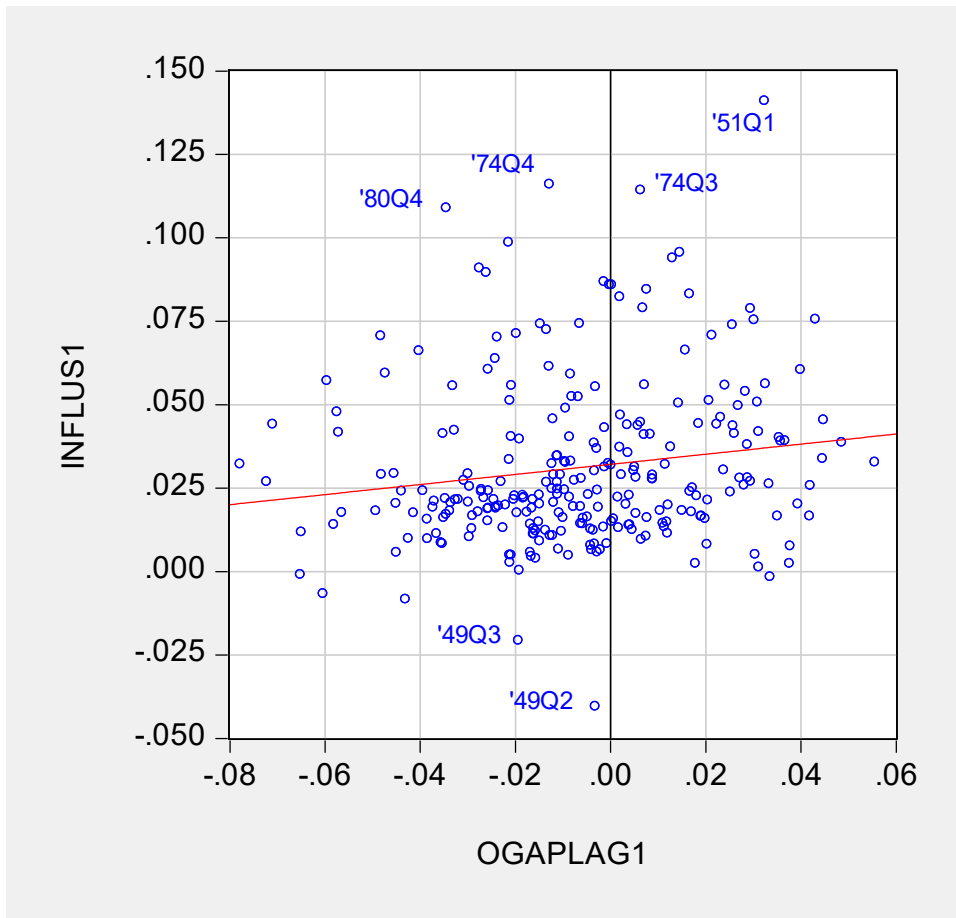


Inflation and Lagged Output Gap

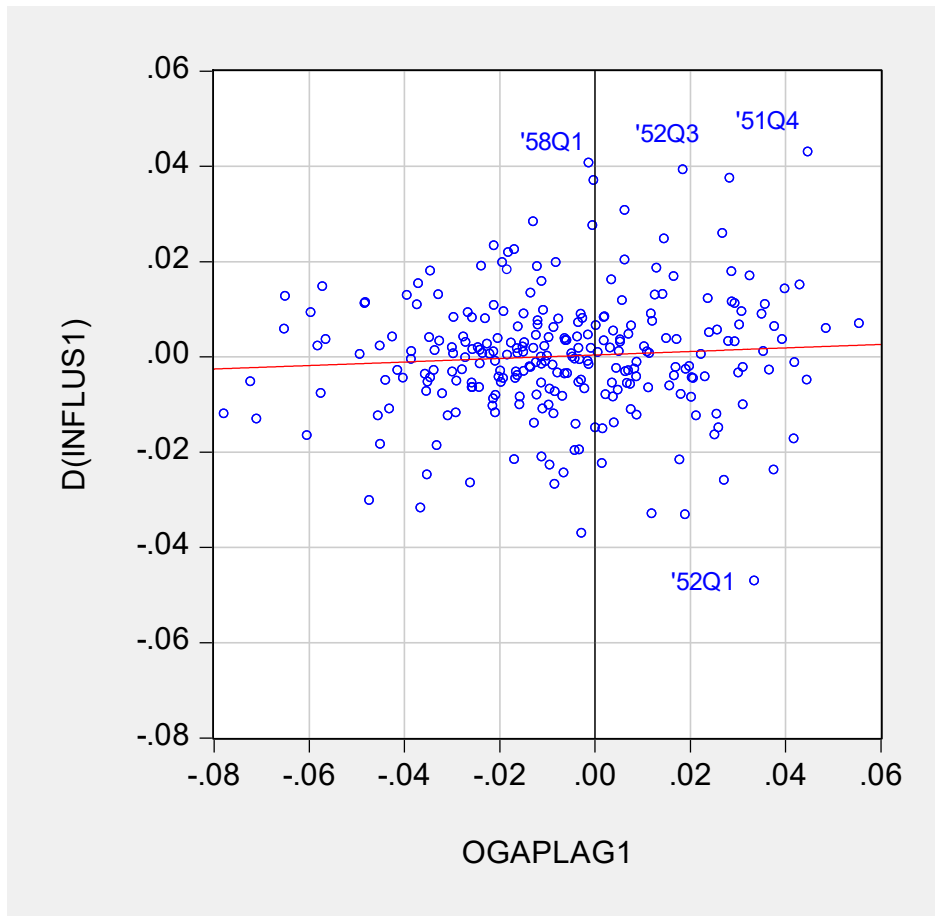


Inflation and oil prices

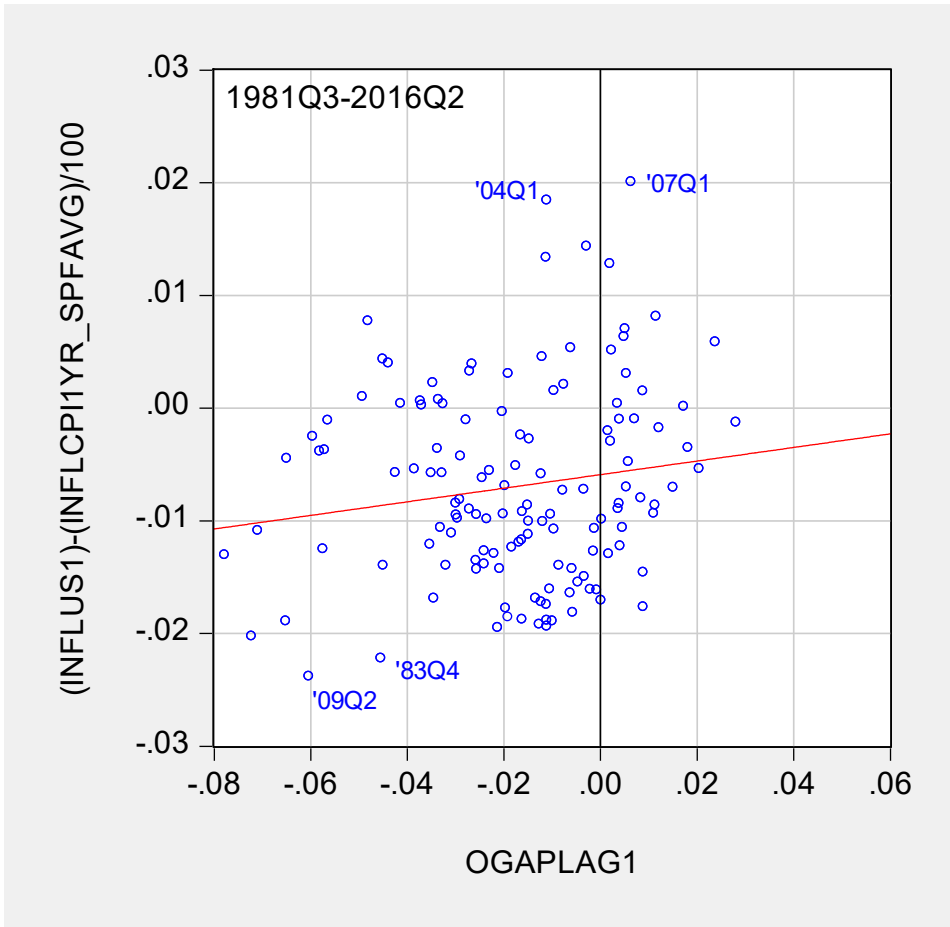




$$\pi_t = \cancel{\pi_t^e} + f\left(\frac{Y_{t-1} - Y^*}{Y^*}\right)$$



$$\pi_t = \pi_{t-1} + f\left(\frac{Y_{t-1} - Y^*}{Y^*}\right)$$



$$\pi_t - \hat{\pi}_t^e = f\left(\frac{Y_{t-1} - Y^*}{Y^*}\right)$$

Fisher relation: $r = i - \pi^e$

