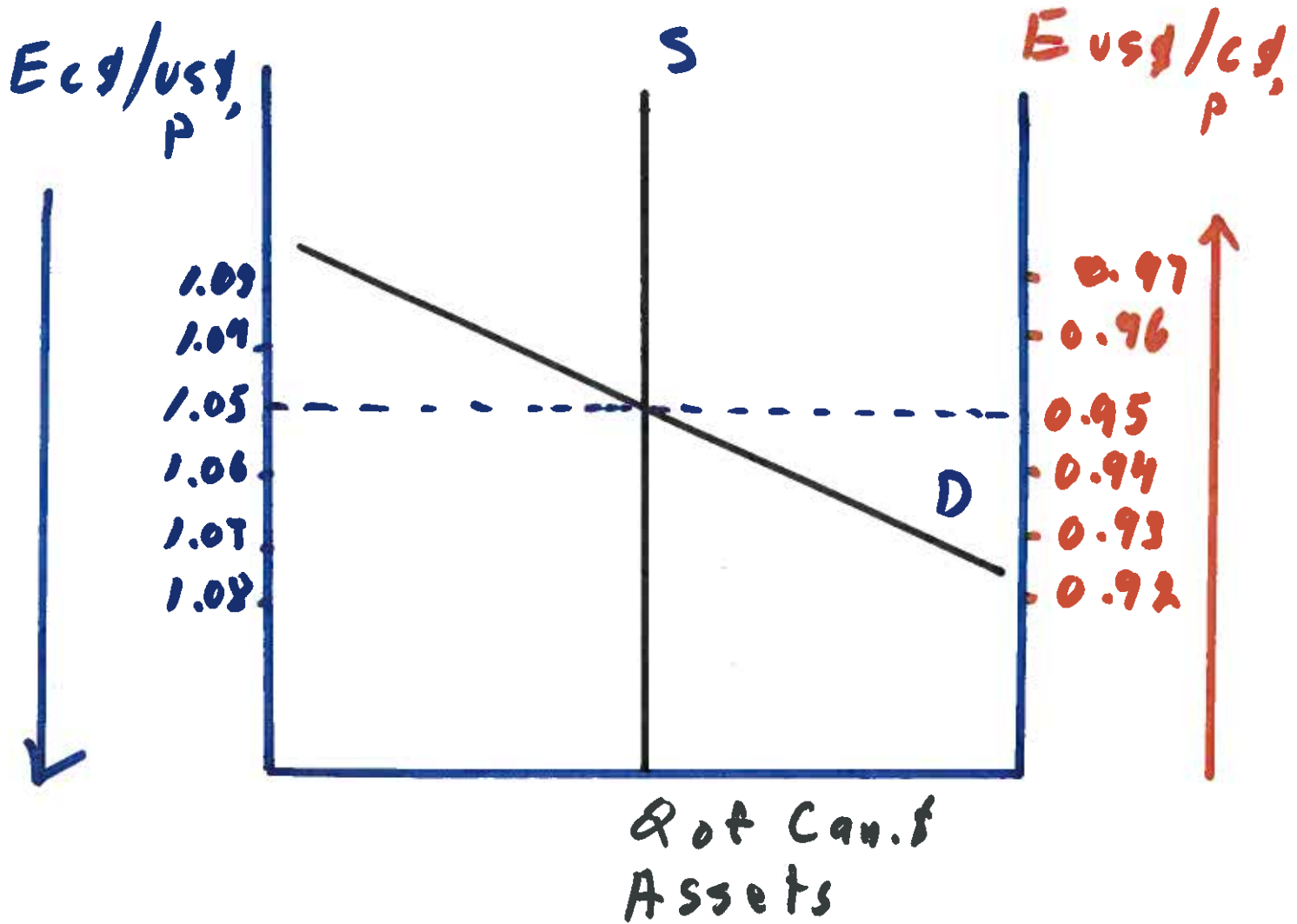


Supply and Demand for Can. Assets

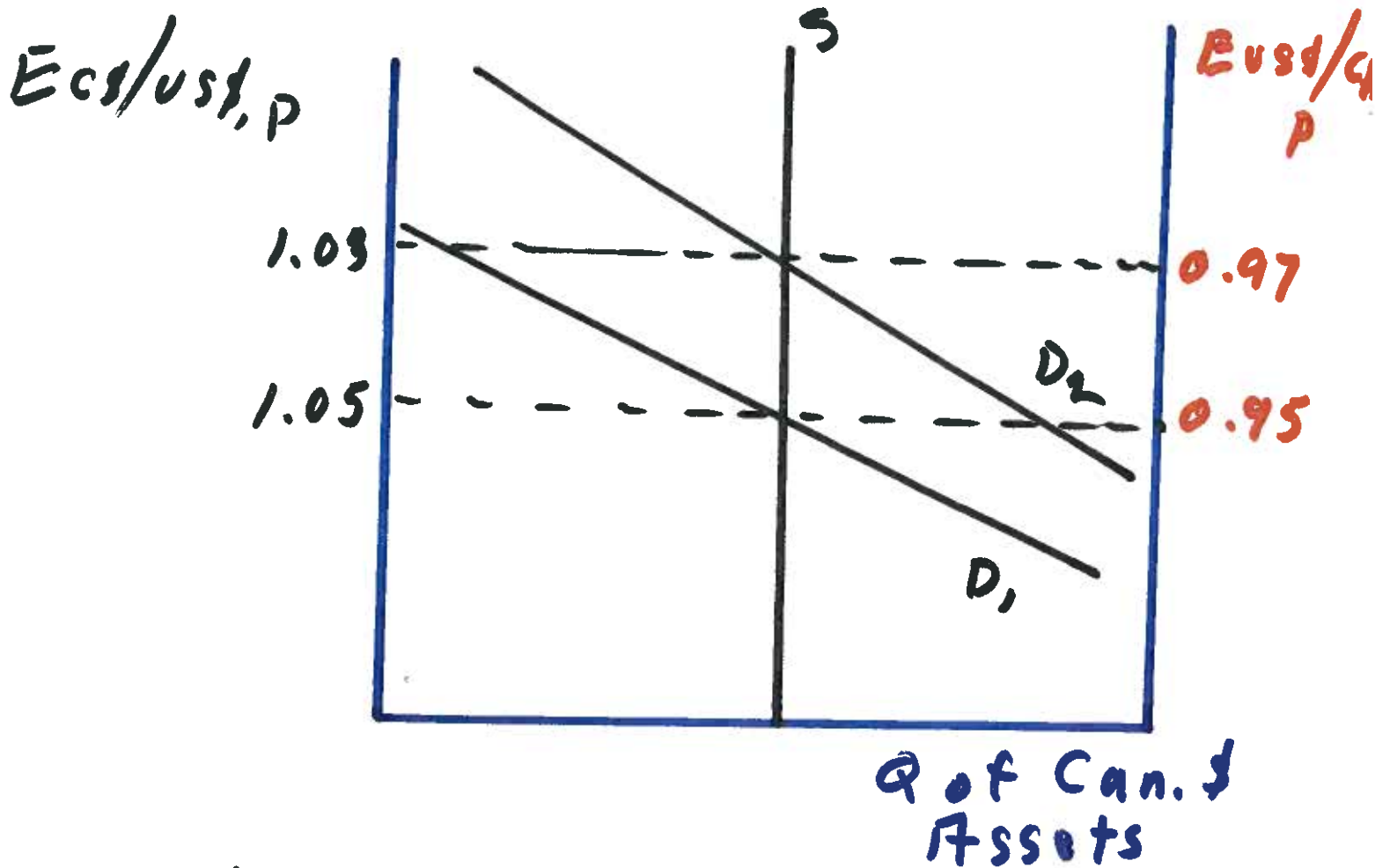


Supply of Can. assets is independent of $E_{cd/usd, P}$ and $E_{usd/cd, P}$

✓

The effect of an increase in i^D

ALL OTHER THINGS
REMAINING UNCHANGED



$$\text{old } i^D = 0.0900$$

$$\text{new } i^D = 0.0492$$

$$i^R = 0.040$$

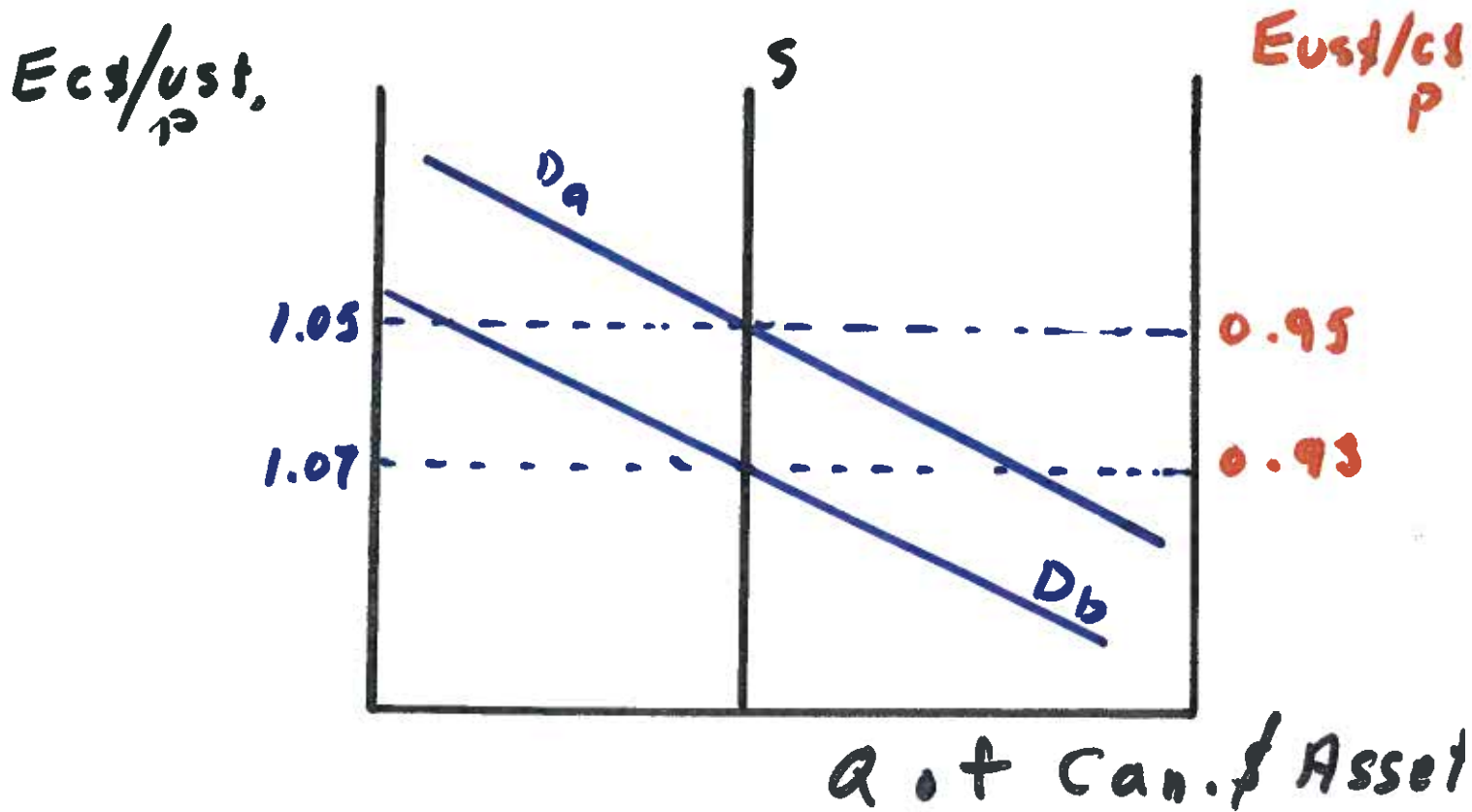
$$E^{E_{C\$/US\$, P+1}} = 1.0395$$

Effect of an:

1 increase in i^F

2 increase in $E_{\$/\text{USD}, P+1}$

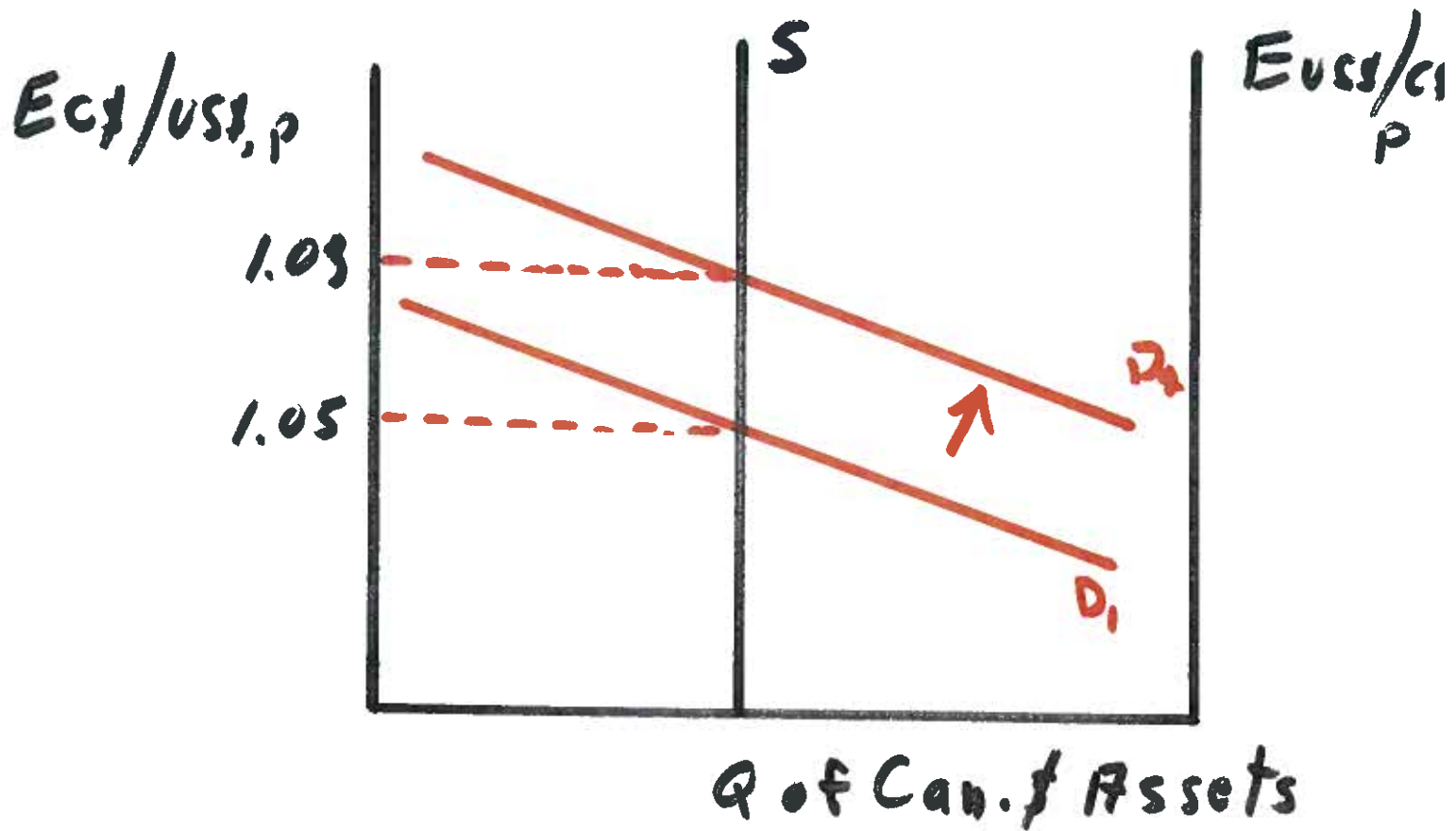
ALL OTHER THINGS
REMAINING UNCHANGED



Fall in demand for Can. \$
assets leading to an increase
in $E_{\$/\text{USD}, P}$ and a fall in
 $E_{\text{USD}/\$, P}$

3

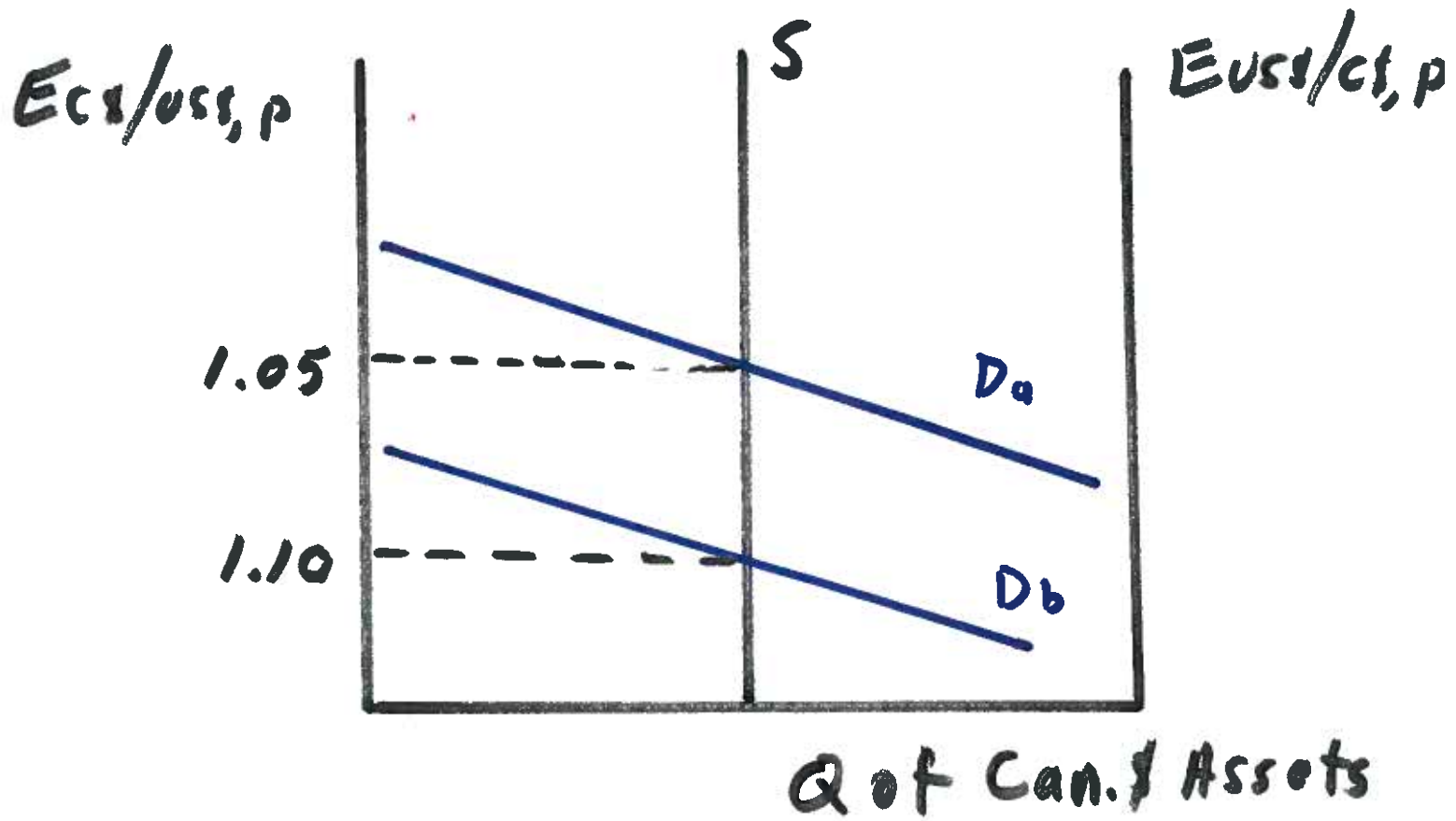
The Case of a Change in the Relative Rates of Inflation: Canada and the US



In our example, both i^0 and $E_{C\$/US\$,p+1}^e$ increase

Above - effect of an increase in i^0 ALONE

Effect of an increase in $E^e_{ct/ust, p+1}$ ALONE



Combined Effect

