ECON6002 Macroeconomic Analysis

UNIVERSITY OF SYDNEY · ECONOMICS · POSTGRADUATE

Full guide + ask Sia about ECON6002

SIDE 1/2 WHAT THE FINAL REWARDS · Topics 7–10 · rules, assumptions, mechanisms, interpretation — **CLOSED-BOOK MEMORY SHEET · FORMULA SHEET PROVIDED** — S2 2026 · **revision only**

0 · Exam Map

COURSE.JSON · BRIEF

7.5 | 30% | 7.5 | FINAL 55%

ASSESSMENT	WT	FORMAT / SCOPE
Problem Set 1 (Online Quiz)	7.5%	Canvas, ~30 min
In-Semester Test (Midterm)	30%	in person, closed book; 1 h; Topics 1–6
Problem Set 2 (Online Quiz)	7.5%	Canvas, ~30 min
Final Exam	**55%**	2 h + 10 min reading; 3 questions; Topics 7–10

"Exam format: The exam is a supervised, in-person, closed-book exam." (ECON6002 S1 2026 Final Exam Information announcement + S1 2026 exam instruction/formula sheet — Semester 1 2026 offering; confirm this semester's rule on the LMS (PDF_FinalExam_Info_Announcement_ECON6002_pdf.txt))

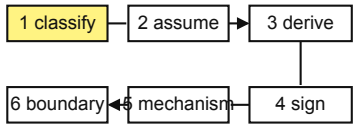
WHAT THE EXAM SHEET GIVES YOU

A standard log-linearised New Keynesian formula sheet, provided by the University. **Do not reproduce it here.**

The sheet does not choose the method, state assumptions, derive a result, sign a shock, interpret a coefficient or explain a mechanism. Those are the memory targets below. Nothing of your own goes into the exam.

1 · Final-Answer Workflow

T7–10 · EXAM MOVES



verdict · equation · mechanism

For every T/F/U or extended response: classify → assume → derive → sign → explain → qualify.

PROMPT WORD	WHAT EARNS THE MARK
derive / solve	start from supplied equations; show substitutions
explain	name the real-rate, expectations or spread channel
compare	state what is held fixed; sign the change
T/F/U	verdict, mechanism, one boundary condition

EXAM MOVE *Underline the shock, the maintained assumptions and the requested object before doing algebra. A correct equation without the economic channel is incomplete.*

Assumption check: i.i.d. plus no smoothing or gap feedback makes future deviations zero; persistence keeps expectations. State this before algebra. T/F/U: verdict, mechanism, boundary.

2 · NK Foundations

T7 · FINAL

★ Start with the RBC skeleton—optimising households, rational expectations, log-linearisation—then add two distortions: monopolistic competition (real markup) and Calvo price stickiness (nominal rigidity). Standard simplifications: cashless, no capital, no government, competitive labour market.

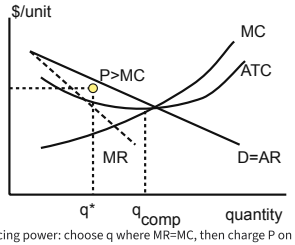
BLOCK	CHOICE / OUTPUT	WHY IT MATTERS
Household	Euler equation → dynamic IS	nominal rate affects demand through real rate
Firms	CES demand + Calvo pricing → NKPC	markup permits price choice; stickiness delays reset
Central bank	Taylor rule	closes model; determinacy needs $\phi_\pi>1$

CES PRICING DECISION

$C_t(i)=[P_t(i)/P_t]^{-\varepsilon}C_t,\ \varepsilon>1$

$\mu=\varepsilon/(\varepsilon-1)\cdot P(i)=\mu V\cdot$ real $MC=1/\mu$

Direction: smaller ε → goods less substitutable → more market power → larger μ. As ε→∞, μ→1: the competitive limit. Do not write (ε−1)/ε as the markup; that is its reciprocal, real marginal cost.



Pricing power: choose q where MR=MC, then charge P on demand; μ=ε/(ε−1).

NATURAL BENCHMARK

$\hat{y}_t^{\,n}=[(1+\varphi)/(\sigma+\varphi)]\,\hat{a}_t \quad \tilde{y}_t=\hat{y}_t-\hat{y}_t^{\,n}$

Natural output is flexible-price output. It depends on productivity, preferences and the markup—not monetary policy. The ***output gap*** is the policy-relevant deviation of actual from natural output.

2b · Which Object?

T7 CHOOSER

IF ASKED...	USE / SAY
market power	derive μ from CES FOC; give $\varepsilon\to\infty$ boundary
technology shock	move natural output; then recompute gap
money non-neutrality	sticky prices → nominal rate moves real rate
Calvo realism	constant hazard is tractable, not realistic

LIMIT TESTS

3 · Calvo → NKPC

T8 · HEAVILY EXAMINED

Convention: θ = probability the price stays fixed; 1−θ = fraction resetting. State it because some texts reverse the symbol.

DURATION

Expected price duration = 1/(1-θ)
θ=0.75 → 4 quarters · θ=0.8 → 5 quarters

A resetting firm selects a markup over a βθ-weighted average of current and expected future nominal marginal cost because its chosen price may remain in force. Combine the optimal reset price with the aggregate price index and $\pi_t^c=p_t^c-p_{t-1}^c$.

STEP	OBJECT / CHECK
1 Reset	price for the possible whole spell, not only today
2 Aggregate	θ old prices + (1−θ) reset prices
3 Linearise	around zero-inflation steady state
4 Collapse	current inflation = expected inflation + pressure

MARGINAL-COST FORM

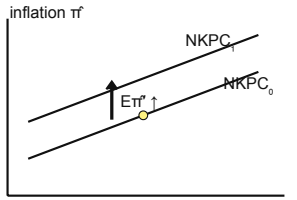
$\hat{\pi}_t=\beta E_t\hat{\pi}_{t+1}+\lambda\hat{mc}_t$

$\lambda=(1-\theta)(1-\beta\theta)/\theta$

GAP FORM

$\hat{mc}_t=(\sigma+\varphi)\tilde{y}_t\cdot\ \kappa=\lambda(\sigma+\varphi)$

$\hat{\pi}_t=\beta E_t\hat{\pi}_{t+1}+\kappa\tilde{y}_t$



Higher expected inflation shifts the whole NKPC up; it is not a move along the curve.

βθ multiplies expected future inflation, never lagged inflation in the pure NKPC. The fundamental driver is real marginal cost; the gap form uses the labour-supply mapping.

3b · Derivation Checklist

T8 MARKING LOGIC

LINE TO SHOW	REASON IT EARNS MARKS
reset probability 1−θ	fixes the convention and duration
βθ weighting	shows the reset price is forward-looking
aggregate price index	connects firm pricing to inflation
λ then κ	separates MC slope from gap slope

4 · Read the NKPC

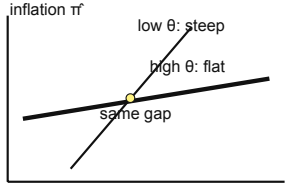
T8 · PROPERTIES

FORWARD SOLUTION · NO BUBBLE

$\hat{\pi}_t=\kappa\sum_{k=0}^{\infty}\beta^k E_t\tilde{y}_{t+k}$

Inflation behaves like an asset price: today's value is the discounted stream of expected future "dividends"—output gaps or marginal-cost pressure. Therefore announcements can move inflation now even before the future gap occurs.

PROPERTY	LOGIC / QUALIFICATION
Forward-looking	resetters price for future marginal costs
No intrinsic persistence	inflation inherits persistence from the gap; no own lag
Costless disinflation	only if policy is fully credible and NKPC is purely forward
Lucas-critique resistant	built from deep parameters, not a reduced-form trade-off
Hybrid fix	add $\gamma_b\hat{\pi}_{t-1}$; now persistence is intrinsic



Higher θ → longer duration → lower λ and κ → flatter NKPC.

COMPARATIVE STATICS

CHANGE	K	SAME GAP IMPLIES	REAL EFFECT
θ ↑	↓	less inflation	more output response
σ+φ ↑	↑	more inflation	steeper supply
ρ ↑ in gap AR(1)	unchanged	inflation response coefficient ↑	more inherited persistence

HYBRID FORM

$\hat{\pi}_t=\gamma_b\hat{\pi}_{t-1}+\gamma_f E_t\hat{\pi}_{t+1}+\kappa\tilde{y}_t$

TRAP *"Higher θ makes inflation more sensitive to the gap" is false. Higher θ makes fewer firms reset, so κ falls and the curve flattens.*

4b · T/F/U Boundaries

T8 JUDGEMENT

"Pure NKPC inflation is persistent."	**U:** no intrinsic persistence; it may inherit a persistent driver.
"Credible disinflation is free."	**U:** only pure forward form + full credibility.
"Gap is the primitive driver."	**F:** real marginal cost is primitive; gap is a mapping.

5 · Monetary-Policy Routine

T9 · EXTENDED RESPONSE

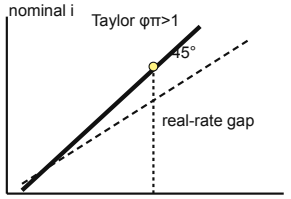
EQUATION	BLOCK	ECONOMIC READING
$\tilde{y}=E\tilde{y}'-(1/\sigma)(\hat{r}-E\hat{\pi}')+\varepsilon^d$	demand	higher ex-ante real rate cuts the gap
$\hat{\pi}=\beta E\hat{\pi}'+\kappa\tilde{y}+\varepsilon^\pi$	supply	expected inflation + cost pressure
$\hat{r}=\phi_r\hat{r}_{-1}+(1-\phi_r)(\phi_\pi\hat{\pi}+\phi_y\tilde{y})+\varepsilon^m$	policy	nominal-rate feedback

TRANSMISSION

$rr_t=\hat{r}_t-E_t\hat{\pi}_{t+1}$

$\hat{r}\uparrow\to rr\uparrow$ (prices sticky) $\to$ demand $\downarrow\to\tilde{y}\downarrow\to\hat{\pi}\downarrow$

Taylor principle: $\phi_\pi>1$ strictly. If inflation rises one point, the nominal rate must rise by more than one point, so the real rate increases and reverses the inflationary movement. If $\phi_\pi<1$, the real rate falls, validating self-fulfilling inflation and allowing multiple "sunspot" equilibria.



A rule steeper than 45° makes the nominal rate outrun inflation, raising the real rate.

I.I.D. SHORTCUT: SAY ASSUMPTIONS FIRST

With i.i.d. shocks, $\phi_r=\phi_y=0$ and no state variables, $E_t\tilde{y}_{t+1}=E_t\hat{\pi}_{t+1}=0$. The dynamic system becomes static. Substitute policy into IS, then NKPC into that expression; collect ỹ. Derive—do not quote.

IF SHOCKS ARE...	EXPECTATIONS	METHOD
i.i.d.	future deviations zero	static substitution
AR(1)	ρ×current state	undetermined coefficients / dynamic solution

5b · Determinacy Answer

T9 · DO NOT STOP AT $\Phi\Pi>1$

1. State $\phi_\pi>1$ strictly.
2. Let inflation rise by one point.
3. The nominal rate rises by more than one point.
4. With sticky prices, expected inflation does not match that move on impact, so rr rises.
5. Higher rr lowers demand, the gap and inflation: the initial movement is reversed.

6 · Shock Taxonomy

T9 · DECIDE BEFORE ALGEBRA

SHOCK	GAP & INFLATION	TRADE-OFF?	POLICY READING
Demand ε^d	move together	No	rate offsets both
Technology	move together relative to natural benchmark	No	divine coincidence
Cost-push ε^π	move opposite	**Yes**	less inflation means deeper negative gap
Contractionary monetary ε^m	both fall; nominal rate rises	policy disturbance	real-rate channel

Divine coincidence: stabilising inflation also stabilises the gap for demand and technology shocks. A cost-push shock breaks it. Raising ϕ_π damps both variables for demand/technology shocks; under cost-push it reduces inflation variance but raises output-gap variance.

OPTIMAL-POLICY CRITERION

$L=\mathrm{Var}(\hat{\pi}_t)+\vartheta\mathrm{Var}(\tilde{y}_t),\ \vartheta\geq0$

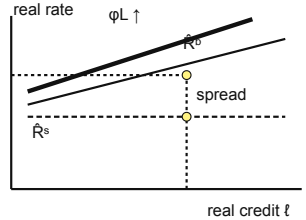
FINANCIAL FRICTION CHANGES THE ASSIGNMENT

Standard NK has one representative household and frictionless finance, so $R^b=R^s$. Suh (2014) adds patient savers (β) and impatient borrowers ($\beta_b<\beta$) plus an intermediary. Now $R^b>R^s$ and the spread moves with credit.

LEVEL → LOG DEVIATION

$R^b=(1+\omega+\varphi_L)\Xi_0\ell^\zeta R^s$

$\hat{R}^b=\hat{R}^s+\zeta\hat{\ell}$



Intermediation opens R^b–R^s; more credit widens the cyclical wedge, while φL shifts its level.

PART	WHERE IT BITES	DO NOT SAY
ω, ϕ_L, Ξ_0	constant level / steady spread	that ϕ_L changes ζ
ζ	cyclical accelerator	that constants survive demeaning
Policy rate	inflation	that it should do both jobs

Semester 2 formal examination period, from 16 November 2026 (the Exams Office publishes the exact date). **Your exam is closed book with a formula sheet provided: nothing of your own goes in. Use this to revise, not to carry.**

ECON6002 Drills, Worked Examples & Judgement Cards

TOPICS 7–10 · REPRODUCE THE WORKING FROM MEMORY

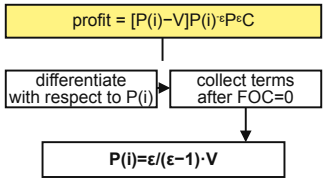
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SIDE 2/2 · SELF-TEST · 4 worked examples · traps · method chooser · exam-morning plan · RECALL FIRST · CHECK SECOND · Final focus · **Topics 7–10**

7 · Worked: Markup + Natural Output

T7 · 12 MARKS

Given: $C(i)=[P(i)/P]^{-\varepsilon}C$, $\varepsilon=6$; nominal marginal cost V. Then $\sigma=2$, $\phi=1$ and $\hat{a}=+3\%$.



Do not quote the markup: show the CES-profit FOC, then collect P(i).

1. Write profit: $[P(i)-V]P(i)^{-\varepsilon}P^{\varepsilon}C$.
2. FOC: $(1-\varepsilon)P(i)^{-\varepsilon}+\varepsilon VP(i)^{-\varepsilon-1}=0$.
3. Multiply by $P(i)^{\varepsilon+1}/(P^{\varepsilon}C)$: $(1-\varepsilon)P(i)+\varepsilon V=0$.
4. Hence $P(i)=[\varepsilon/(\varepsilon-1)]V$; $\mu=6/5=$ **1.20**, a 20% markup. Real MC=$1/\mu=5/6\approx$ **0.833**.
5. Natural-output pass-through: $(1+\phi)/(\sigma+\phi)=(1+1)/(2+1)=2/3$.
6. Apply $\hat{a}=3\%$: $\hat{y}^{n}=(2/3)(3\%)=$ **+2%**.

CHECK	ECONOMIC SENTENCE
$\varepsilon\to\infty$	$\mu\to1$: competitive limit
response < 3%	$\sigma>1$: some productivity gain becomes leisure
policy independence	natural output is flexible-price benchmark

SELF-TEST *Can you derive the FOC without looking, identify the reciprocal-markup trap, and explain why natural output is not a policy choice?*

7b · Calvo Mini-Drill

T7–8

θ=0.8	reset probability 0.2; duration 1/0.2=**5 quarters**
vs θ=0.75	stickier; duration rises from 4 to 5
κ direction	falls; NKPC flattens

7c · Write-It-Cold Checks

T7 RETRIEVAL

FRONT	BACK
Why monopoly?	without pricing power there is no chosen price to keep fixed
μ vs ε	$\mu=\varepsilon/(\varepsilon-1)$; smaller ε means larger markup
Natural output?	flexible-price benchmark, policy-independent
Gap?	actual minus natural output in logs
Calvo limitation?	constant reset hazard is tractable but not realistic

8 · Worked: Forward NKPC

T8 · 6 MARKS

Given: $\pi\hat{}_t=\beta E_t\pi\hat{}_{t+1}+\kappa\tilde{y}_t$, $\beta=0.99$, $\kappa=0.1$. Gap: $\tilde{y}_t=\rho\tilde{y}_{t-1}+\varepsilon_t$, $\rho=0.5$. Evaluate at $\tilde{y}_t=-0.04$.

1 · GUESS

$\hat{\pi}_t=\psi\tilde{y}_t$

2 · EXPECTATION

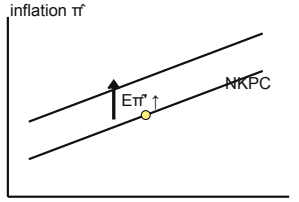
$E_t\hat{\pi}_{t+1}=\psi E_t\tilde{y}_{t+1}=\psi\rho\tilde{y}_t$

3 · SUBSTITUTE AND SOLVE

$\psi\tilde{y}=\beta\psi\rho\tilde{y}+\kappa\tilde{y}\ \Rightarrow\ \psi=\kappa/(1-\beta\rho)$
$=0.1/(1-0.99\times0.5)=0.1/0.505\approx$ **0.198**

4 · EVALUATE

$\hat{\pi}\approx0.198(-0.04)=$ **-0.0079** $\approx$ 0.8 percentage points below steady state



Expectations shift current inflation; the AR(1) gap supplies the persistence.

QUESTION TWIST	EFFECT ON $\Psi=\kappa/(1-\beta\rho)$
$\theta\uparrow$	$\kappa\downarrow\to\psi\downarrow$
$\rho\uparrow$	denominator $\downarrow\to\psi\uparrow$
gap dies immediately, ρ=0	$\psi=\kappa$

Persistence answer: $\pi\hat{}$ is ψ times the gap, so it inherits decay ρ=0.5. The pure NKPC has no persistence of its own.

NUMERIC SLOPE CHECK FROM GUIDE

Θ	B	Σ=Φ	Λ	K
0.9	0.99	1	≈0.012	≈0.024

At θ=0.9, $\lambda=(0.1\times0.109)/0.9\approx0.012$; $\kappa=\lambda(1+1)\approx0.024$. Use this as a direction check against any claim that stickier prices steepen the curve.

TRAP *Write the symbolic ψ first. Substituting numbers too early hides the persistence comparative static.*

8b · Fast Recall Pairs

SYMBOLS THAT FLIP ANSWERS

DO NOT MERGE	DISTINCTION
μ vs $1/\mu$	markup vs real marginal cost
θ vs $1-\theta$	keep-fixed vs reset probability
λ vs κ	marginal-cost slope vs gap slope
intrinsic vs inherited	own lag vs persistence of the driver
pure vs hybrid NKPC	no lag vs $\gamma_b\pi\hat{}_{t-1}$

9 · Worked: i.i.d. NK System

T9 · 8 MARKS

Given: $\sigma=1$, $\kappa=0.15$, $\beta=0.99$, $\phi_\pi=2$; $\phi_r=\phi_y=0$; shocks i.i.d. Evaluate contractionary $\varepsilon^m=0.25$ with $\varepsilon^d=\varepsilon^\pi=0$.

1. i.i.d. $\Rightarrow E\tilde{y}'=E\pi\hat{}'=0$. IS collapses to $\tilde{y}=-r\hat{}$.
2. NKPC: $\pi\hat{}=\kappa\tilde{y}+\varepsilon^\pi$.
3. Rule: $r\hat{}=\phi_\pi\pi\hat{}+\varepsilon^m$.
4. Insert rule in IS: $\tilde{y}=-\phi_\pi\pi\hat{}-\varepsilon^m$.
5. Insert NKPC: $\tilde{y}(1+\kappa\phi_\pi)=-\phi_\pi\varepsilon^\pi-\varepsilon^m$.

CLOSED FORM

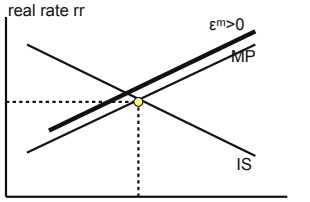
$\tilde{y}\ =\ [-\psi_\pi\varepsilon^\pi-\varepsilon^m]/(1+\kappa\psi_\pi)$

$\hat{\pi}\ =\ [\varepsilon^\pi-\kappa\varepsilon^m]/(1+\kappa\psi_\pi)$

$\hat{r}\ =\ \psi_\pi\hat{\pi}+\varepsilon^m$

Denominator $=1+0.15\times2=$ **1.30**.

OBJECT	WORKING	RESULT	MEANING
$\tilde{y}$	−0.25/1.30	**−0.19**	contraction
$\pi\hat{}$	−0.15×0.25/1.30	**−0.029**	inflation falls
$r\hat{}$	0.25/1.30	**+0.19**	nominal and real rate rise



A contractionary policy shock shifts MP up: the real rate rises and the output gap falls.

Finish in words: the shock dominates the negative feedback $\phi_\pi\pi\hat{}$, so the net nominal rate rises even as inflation falls. With $E\pi\hat{}=0$, the ex-ante real rate is also $\approx$+0.19.

SELF-TEST *Re-derive the closed form on blank paper. If you cannot recover $1+\kappa\rho\pi$ in the denominator, revisit the substitution order.*

9b · Shock Forms

SAME DENOMINATOR

ONLY SHOCK ON	GAP	INFLATION	READ
$\varepsilon^d>0$	$\varepsilon^d/(1+\kappa\phi_\pi)$	$\kappa\varepsilon^d/(1+\kappa\phi_\pi)$	both ↑
$\varepsilon^\pi>0$	$-\phi_\pi\varepsilon^\pi/(1+\kappa\phi_\pi)$	$\varepsilon^\pi/(1+\kappa\phi_\pi)$	gap ↓, inflation ↑
$\varepsilon^m>0$	$-\varepsilon^m/(1+\kappa\phi_\pi)$	$-\kappa\varepsilon^m/(1+\kappa\phi_\pi)$	both ↓

Higher ϕ_π damps demand-shock gap and inflation together. For cost-push, it lowers inflation but makes the negative gap larger: that is the policy trade-off in algebra.

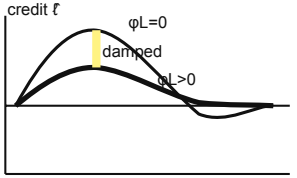
10 · Worked: Credit Spread

T10 · 8 MARKS

Given: $R^b=(1+\omega+\phi_L)\Xi_t\ell^\zeta R^s$; $\omega>0$, $\phi_L\geq0$, $\zeta>0$. Let $\zeta=0.5$ and $\ell\hat{=}+8\%$.

1. Take logs: $\log R^b=\log(1+\omega+\phi_L)+\log\Xi_t+\zeta\log\ell+\log R^s$.
2. Mark the first two terms as time-invariant level shifters.
3. Subtract steady state: constants cancel.
4. Obtain $R^b=R^s+\zeta\ell\hat{}$; hence spread $=\zeta\ell\hat{}$.
5. Evaluate: $0.5\times8\%=$ **+4%** cyclical spread.

OBJECT	INTERPRETATION
ω	intermediation cost; constant part of spread
ϕ_L	macroprudential aggressiveness in level term
ζ	elasticity of spread to real credit
$\beta_b<\beta$	impatience sustains borrowers and lending



Countercyclical macroprudential policy reduces the amplitude and persistence of a credit boom.

MECHANISM + POLICY ASSIGNMENT

Credit ↑ → cyclical spread ↑ → borrower rate ↑ → borrower demand/net worth ↓ → feedback to credit. Because nominal rigidity and the credit friction create separate targets, the policy rate alone cannot stabilise both without over-tightening demand.

INSTRUMENT	TARGET	EXAMPLES / CONDITION
Policy rate	inflation	still needs $\phi_\pi>1$
Macroprudential	credit / systemic risk	LTV/DTI caps, buffers, reserves

BUILT-IN CHECK *If constants remain after subtracting the steady state, the log-linearisation is wrong. φL belongs to the level, not ζ.*

10b · T/F/U: One Rate, Two Targets

T10 SIGNATURE

Claim: the policy rate alone is sufficient to stabilise inflation and credit risk. **False.** Nominal rigidity and the financial friction create distinct distortions and objectives. Using the rate to lean against credit can over-tighten aggregate demand and miss the inflation target.

11 · Judgement Cards

T/F/U · MECHANISM FIRST

	$\pi\hat{}$ vs $\tilde{y}$ same	opposite
shock source	demand/tech divine coincidence	cost-push trade-off
policy problem	stabilise both	choose loss allocation

First ask whether inflation and the gap move together; that decides the trade-off.

CLAIM	VERDICT + QUALIFICATION
"Higher θ makes inflation more responsive to the gap."	**False.** λ and κ fall; NKPC flattens.
"Pure NKPC inflation has no persistence."	**Uncertain.** No intrinsic persistence, but it inherits persistence from its driver.
"Credible disinflation has zero output cost."	**Uncertain.** True only with full credibility and no backward term.
"ϕ_π=1 satisfies the Taylor principle."	**False.** Need strict $\phi_\pi>1$.
"Demand shocks create an inflation–gap trade-off."	**False.** They move together; divine coincidence holds.
"Cost-push inflation should always be fully offset."	**Uncertain.** Full offset deepens the negative gap; choice depends on θ.
"Macroprudential policy replaces monetary policy."	**False.** It complements it; Taylor determinacy remains.
"ϕ_L changes the cyclical elasticity ζ."	**False.** In the stated equation ϕ_L is a level shifter.
"Savers and borrowers can share β."	**False in this setup.** $\beta_b<\beta$ sustains borrowing.

ONE-SENTENCE MECHANISMS

Money is non-neutral	sticky prices make nominal-rate changes move the real rate.
Inflation jumps today	resetters price expected future marginal costs into current prices.
Indeterminacy	$\Phi_\pi<1$ lets inflation lower the real rate and validate beliefs.
Financial accelerator	more credit widens the spread and feeds back through borrower demand.

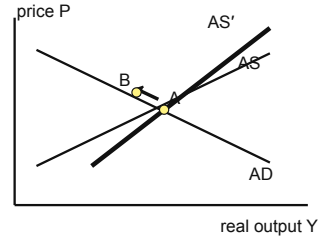
ANSWER SHAPE *"False because …; under … the result reverses/qualifies." The boundary condition is what turns recall into judgement.*

Boundary checks: Calvo's constant hazard is tractable, not realistic; reset frequency rises with inflation. Natural output is the flexible-price benchmark, not policy-set. Zero future deviations require i.i.d. shocks with no smoothing or gap feedback.

12 · Method Chooser

READ THE VERB

PROMPT GIVES / ASKS	FIRST MOVE	FINISH WITH
CES demand + V	differentiate profit in P(i)	μ, reciprocal MC, $\varepsilon\to\infty$
θ / reset chance	state convention	duration + κ direction
NKPC + AR(1) gap	guess $\pi\hat{}=\psi\tilde{y}$	$\psi=\kappa/(1-\beta\rho)$, inherited persistence
Product spread equation	take logs; label constants	subtract steady state; interpret $\zeta\ell\hat{}$
Two targets, one rate	count frictions/objectives	Tinbergen + separation principle



Cost-push: supply shifts left, so prices rise while output falls; one demand move cannot fix both.

13 · Exam-Morning Plan

CLOSED BOOK

markup · NKPC · policy · spread

T7 · T8 · T9 · T10

gap · forward · shocks · Tinbergen

one cold derivation per topic

Final rehearsal: one derivation and one verbal mechanism for each of Topics 7–10.

1. **Before leaving:** reproduce μ, duration, both NKPC forms, $\phi_\pi>1$ mechanism and spread log-linearisation from memory.
2. **Reading time:** classify each part as T7/T8/T9/T10; circle assumptions (i.i.d., AR(1), credible, flexible/sticky, frictionless/financial).
3. **Writing:** show the starting equation and every substitution; label the shock; add a one-sentence mechanism and boundary case.
4. **Final check:** expected not lagged inflation; strict >1; demand/tech vs cost-push; $\beta_b<\beta$; constants cancel; units are percentage points where stated.

LAST RECALL LINE

`classification → assumptions → derivation → signs → mechanism → boundary`