

CHAPTER OVERVIEW

11: The AA-DD Model

Ideally, it would be nice to develop a way to keep track of all the cause-and-effect relationships that are presumed to exist at the same time. From the previous chapters it is clear, for example, that the money supply affects the interest rates in the money market, which in turn affects the exchange rates in the foreign exchange (Forex) market, which in turn affects demand on the current account in the goods and services (G&S) market, which in turn affects the level of GNP, which in turn affects the money market, and so on. The same type of string of repercussions can be expected after many other changes that might occur. Keeping track of these effects and establishing the final equilibrium values would be a difficult task if not for a construction like the AA-DD model. This model merges the money market, the Forex market, and the G&S market into one supermodel. The construction of the AA-DD model is presented in this chapter.

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