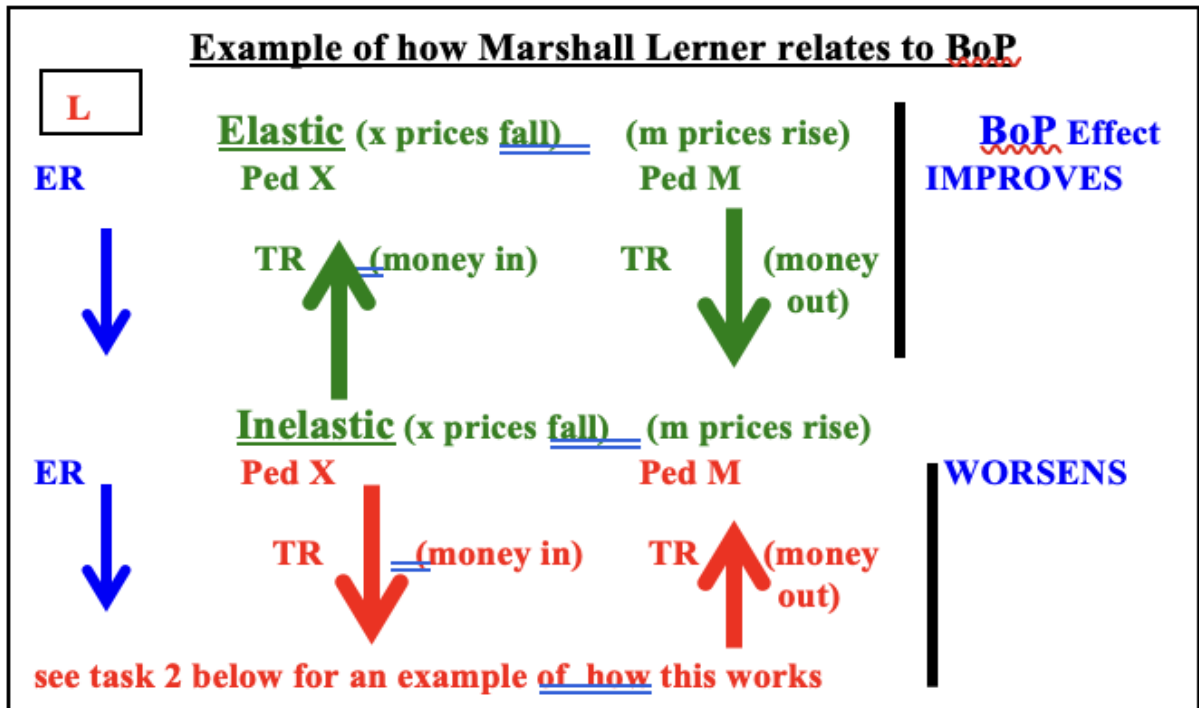


Marshall Lerner Summary

Short Run and Long Run Price Elasticities

	Ped	Short Run	Long run
Germany		X(0.1) M(0.2)	X(0.3) M(0.6)
Short/long run Ped (x+m)		(0.3)	(0.9)
Japan		(0.6)	(1.3)
US		(1.1)	(1.8)
UK		(0.2)	(2.2)

Source:blink and dorton p.299



<p>Marshall Lerner + PED</p>	<p>Demand for X from Timbuktu Demand for M into Timbuktu</p> <p>More X Less M</p>	<p>Marshall Lerner</p>
<p>Draw diagrams for exports and imports to show how the Marshall Lerner condition affects the BoP when an exchange rate falls:</p> <ol style="list-style-type: none"> Timbuktu: $P_{eD}(X) = 0.6$ and $P_{eD}(M) = 1.3$ <p>Note: no distinction is made between long and short run as X and M can be elastic or inelastic in both short run and long run. See Blink page 299 for examples</p>	<p>$X = - > +$ BoP worse (less money flowing in)</p> <p>$M = - > +$ BoP better (less money flowing out)</p> <p>Marshall Lerner: $0.6 + 1.3 = 1.9$ therefore: Result: M effect > X effect</p>	<p>$P_{eD} X (.6) + P_{eD} M (1.3) = -1.9 > 1$ (elastic)</p> <p>Therefore BoP Improves as the ER falls.</p> <p>Get it!!?</p>