A Change in $\xi$

Pick any point on the Y curve.

The Y and M Curves

The Y Curve

Pick any point on the Y curve.

Suppose $D_Y > S_Y$. To get back on the Y curve, the Auctioneer would have to raise $r$ or $P$. Thus Y curve shifts up and to the right.

The Y Curve

Does the event (e.g. people become more confident about the future) mean $D_Y > S_Y$ or $D_Y < S_Y$?

The M Curve

Pick any point on the M curve.
A Change in Tsi

The M Curve

Does the event (e.g. people become more confident about the future) mean \( D_M > S_M \) or \( D_M < S_M \)?

Suppose \( D_M = S_M \). To get back on the M curve, the Auctioneer would have to raise \( r \) or lower \( P \). Thus M curve shifts down and to the right.

Some Problems

- Credit cards are outlawed
  - An increase in \( \xi \)
- Drugs are legalized
  - A decrease in \( \xi \)

A Change in Tsi

A Change in \( \xi \)

- If credit cards are outlawed, \( \xi \) goes up.
  - More money is required as a replacement for credit cards.
- If drugs are legalized, \( \xi \) goes down.
  - Less money is required to avoid prosecution.

A Change in Tsi

A Change in \( \xi \)

- If credit cards are outlawed, \( \xi \) goes up.
  - More money is required as a replacement for credit cards.
- If drugs are legalized, \( \xi \) goes down.
  - Less money is required to avoid prosecution.

We do one: \( \xi \) goes up.
A Change in $\xi$

- Pick a point on the Y curve.
- $D_Y < S_Y$

$c_j = \frac{1}{n-i + 1 + \xi(n-i)}$

Memo to the auctioneer:
- To cut $D_Y$, raise $r$
- To raise $D_Y$, lower $r$

The Auctioneer must raise $D_Y$
A Change in $\xi$

- Pick a point on the $Y$ curve.
- $D_Y < S_Y$
- The Auctioneer must raise $D_Y$.
- The $Y$ curve shifts down and to the left.

A Change in $\xi$

- Pick a point on the $M$ curve.
- $D_M > S_M$
- The Auctioneer must lower $D_M$.

The reduction in $c$ is dominated by the increase in $\xi$.

$m_i = \frac{1 + r_n}{r_n} c_i$
A Change in $\xi$

- Pick a point on the M curve.
- $D_M > S_M$
- The Auctioneer must lower $D_M$
- The M curve shifts down and to the right

**Diagram:**

A Change in $\xi$

- The Y curve shifts down and to the left.
- The M curve shifts down and to right

- P down
- Interest rate is uncertain.

**Diagram:**

A Change in $\xi$

End

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