Economics 304 **Fall 2013**
Daily Problem #19 **November 6**

The interest-rate parity condition says that (assuming we are in a steady-state with perfect foresight) $i = i^* - \frac{\Delta S}{S}$. If relative purchasing-power parity holds, then $\frac{\Delta S}{S} = \pi^* - \pi$. Use these two conditions to show that real interest rates must be equalized between the two countries: $r = r^*$.