An increase in European money supply lowers unemployment in Germany and France. On the other hand, it raises inflation there. An increase in German government purchases lowers unemployment in Germany. On the other hand, it raises inflation there. Correspondingly, an increase in French government purchases lowers unemployment in France. On the other hand, it raises inflation there. The primary targets of the European central bank are zero inflation in Germany and France. The primary target of the German government is zero unemployment in Germany. And the primary target of the French government is zero unemployment in France.

The model of unemployment and inflation can be represented by a system of four equations:

\[ u_1 = A_1 - M - G_1 \]  
\[ u_2 = A_2 - M - G_2 \]  
\[ \pi_1 = B_1 + M + G_1 \]  
\[ \pi_2 = B_2 + M + G_2 \]

Here \( u_1 \) denotes the rate of unemployment in Germany, \( u_2 \) is the rate of unemployment in France, \( \pi_1 \) is the rate of inflation in Germany, \( \pi_2 \) is the rate of inflation in France, \( M \) is European money supply, \( G_1 \) is German government purchases, \( G_2 \) is French government purchases, \( A_1 \) is some other factors bearing on the rate of unemployment in Germany, \( A_2 \) is some other factors bearing on the rate of unemployment in France, \( B_1 \) is some other factors bearing on the rate of inflation in Germany, and \( B_2 \) is some other factors bearing on the rate of inflation in France. The endogenous variables are the rate of unemployment in Germany, the rate of unemployment in France, the rate of inflation in Germany, and the rate of inflation in France.
According to equation (1), the rate of unemployment in Germany is a positive function of $A_1$, a negative function of European money supply, and a negative function of German government purchases. According to equation (2), the rate of unemployment in France is a positive function of $A_2$, a negative function of European money supply, and a negative function of French government purchases. According to equation (3), the rate of inflation in Germany is a positive function of $B_1$, a positive function of European money supply, and a positive function of German government purchases. According to equation (4), the rate of inflation in France is a positive function of $B_2$, a positive function of European money supply, and a positive function of French government purchases.

A unit increase in European money supply lowers the rates of unemployment in Germany and France by 1 percentage point each. On the other hand, it raises the rates of inflation there by 1 percentage point each. A unit increase in German government purchases lowers the rate of unemployment in Germany by 1 percentage point. On the other hand, it raises the rate of inflation there by 1 percentage point. Similarly, a unit increase in French government purchases lowers the rate of unemployment in France by 1 percentage point. On the other hand, it raises the rate of inflation there by 1 percentage point.

As to policy targets there are three distinct cases. In case A, the targets of the European central bank are zero inflation in Germany and France. The target of the German government is zero unemployment in Germany. And the target of the French government is zero unemployment in France. In case B, the targets of the European central bank are zero inflation and zero unemployment in each of the member countries. The target of the German government still is zero unemployment in Germany. And the target of the French government still is zero unemployment in France. In case C, the targets of the European central bank are zero inflation and zero unemployment in each of the member countries. The targets of the German government are zero unemployment and zero inflation in Germany. And the targets of the French government are zero unemployment and zero inflation in France.