



# Lecture Recap

## 1. Goods Market Equilibrium

$$Y = C(Y, T) + I(Y, i) + G$$



# Lecture Recap

## 1. Goods Market Equilibrium

$$Y = C(Y, T) + I(Y, i) + G$$

- IS curve obtained by tracing out  $i$  and corresponding equilibrium  $Y$ , downward sloping.



# Lecture Recap

## 1. Goods Market Equilibrium

$$Y = C(Y, T) + I(Y, i) + G$$

- ▶ IS curve obtained by tracing out  $i$  and corresponding equilibrium  $Y$ , downward sloping.
- ▶ Fiscal policy shifts IS curve, but not the LM curve.
- ▶ However, fiscal policy still affects the money market through money demand.



# Lecture Recap

## 1. Goods Market Equilibrium

$$Y = C(Y, T) + I(Y, i) + G$$

- ▶ IS curve obtained by tracing out  $i$  and corresponding equilibrium  $Y$ , downward sloping.
- ▶ Fiscal policy shifts IS curve, but not the LM curve.
- ▶ However, fiscal policy still affects the money market through money demand.

## 2. Money Market Equilibrium

$$M/P = xYL(i)$$



# Lecture Recap

## 1. Goods Market Equilibrium

$$Y = C(Y, T) + I(Y, i) + G$$

- ▶ IS curve obtained by tracing out  $i$  and corresponding equilibrium  $Y$ , downward sloping.
- ▶ Fiscal policy shifts IS curve, but not the LM curve.
- ▶ However, fiscal policy still affects the money market through money demand.

## 2. Money Market Equilibrium

$$M/P = xYL(i)$$

- ▶ LM curve implicitly determined, horizontal.

# Lecture Recap

## 1. Goods Market Equilibrium

$$Y = C(Y, T) + I(Y, i) + G$$

- ▶ IS curve obtained by tracing out  $i$  and corresponding equilibrium  $Y$ , downward sloping.
- ▶ Fiscal policy shifts IS curve, but not the LM curve.
- ▶ However, fiscal policy still affects the money market through money demand.

## 2. Money Market Equilibrium

$$M/P = xYL(i)$$

- ▶ LM curve implicitly determined, horizontal.
- ▶ Monetary policy shifts LM curve, but not the IS curve.
- ▶ However, monetary policy still affects the goods market through demand for goods.