



Lecture Recap

IS-LM Model



Lecture Recap

IS-LM Model

1. Goods Market Equilibrium

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



Lecture Recap

IS-LM Model

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

IS-LM Model

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.



Lecture Recap

IS-LM Model

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

IS-LM Model

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

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



Lecture Recap

IS-LM Model

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

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

- ▶ LM curve implicitly determined, horizontal.



Lecture Recap

IS-LM Model

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

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

- ▶ LM curve implicitly determined, horizontal.
- ▶ Monetary policy shifts LM curve, but not the IS curve.



Lecture Recap

IS-LM Model

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

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

- ▶ 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.