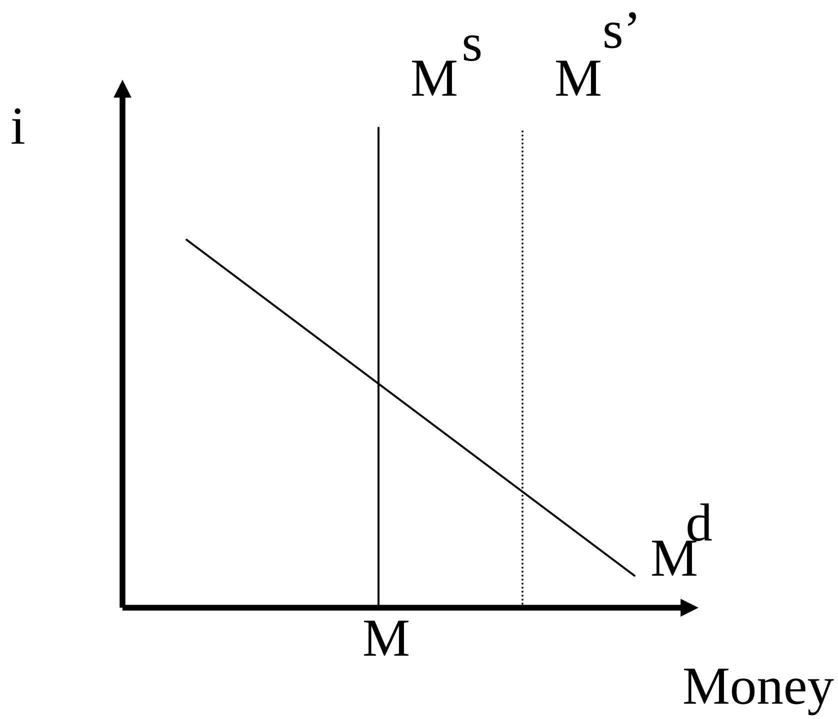
Lecture 6: IS-LM (2)

- Review: Find equilibrium in goods and financial markets (Y,i). Monetary and fiscal policy
- Episodes
- Some dynamics
- Facts

Monetary Policy



Equilibrium in M rather than Central Bank M

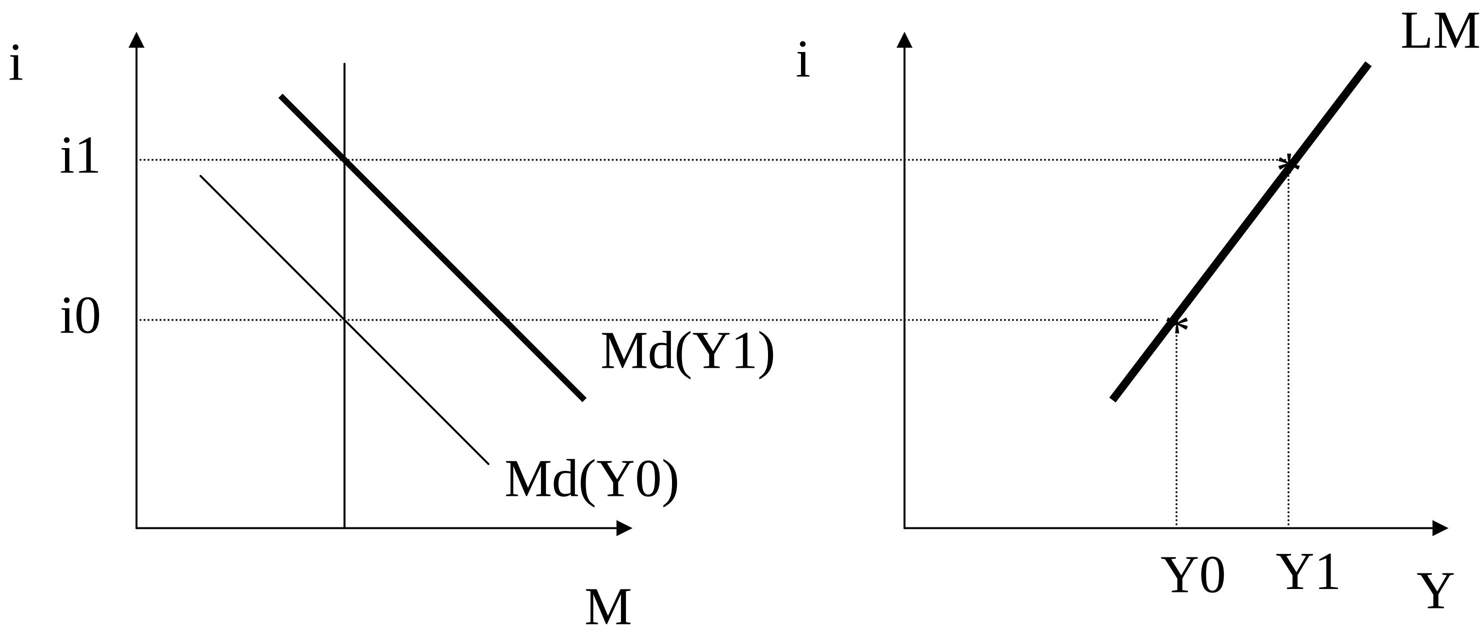
$$Ms = \frac{H}{c + \theta(1-c)}$$

Ms = Md =>

$$H \frac{1}{c + \theta(1-c)} = P\,Y\,L(i)$$

Examples: a) Y2k ; b) Prudence; c) OMO with multiplier

LM



A) Expansionary Monetary Policy; B) Y2k

IS

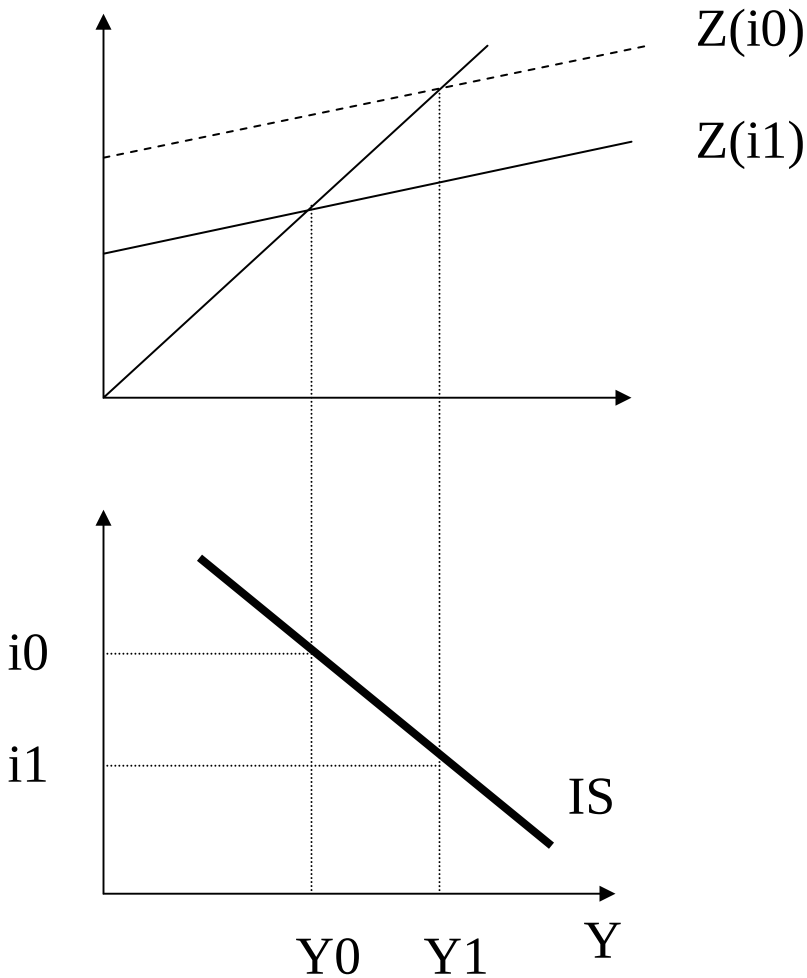
$$\text{OLD:} \quad Y = C(Y-T) + I + G$$

$$I = \underset{+\ -}{I(Y,i)}$$

$$\text{IS:} \quad Y = C(Y-T) + I(Y,i) + G$$

Why IS?

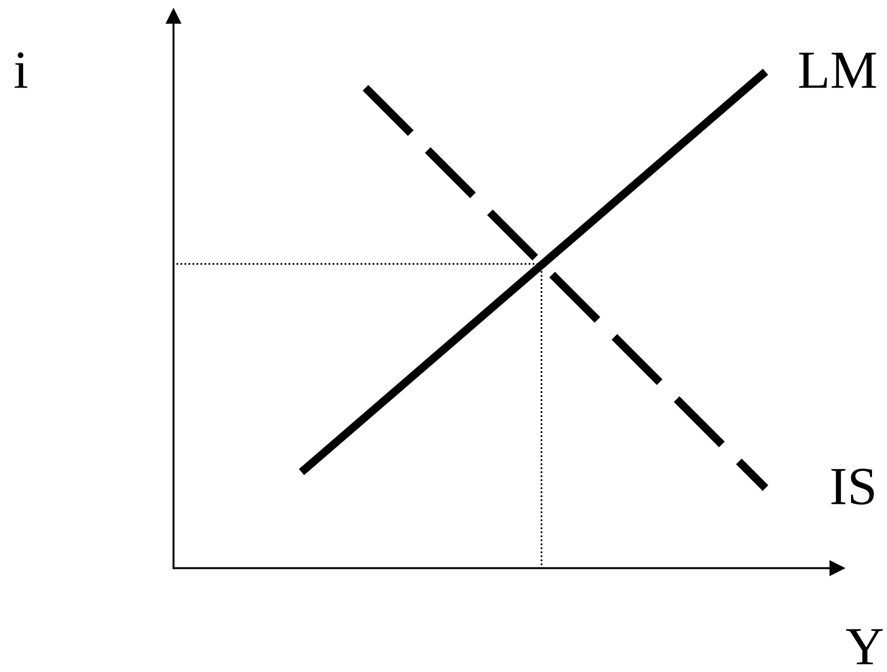
IS



A) Fiscal Policy;

B) “Optimism”

IS-LM Model

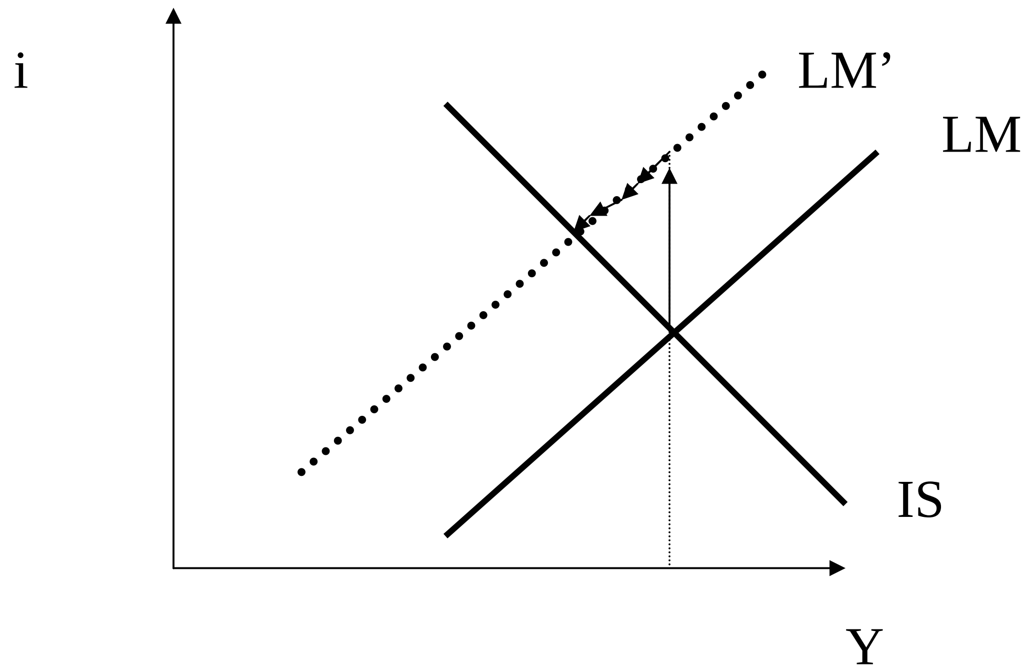


A) Fiscal policy; B) Monetary policy; C) Mix

Episodes

- The Clinton-Greenspan policy mix
- German unification

Dynamics



Monetary Contraction

SLOW GOODS MARKET / FAST FINANCIAL MARKETS

Facts

- Insert Figure 5.11
- Insert Table 5.1