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

\[ M^d \]

Money

\[ M^S \]  \[ M^S' \]

\[ i \]
Equilibrium in $M$ rather than Central Bank $M$

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

Ms = Md $\Rightarrow$

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

Examples: a) Y2k; b) Prudence; c) OMO with multiplier
A) Expansionary Monetary Policy;  B) Y2k
IS

OLD: \[ Y = C(Y-T) + I + G \]

\[ I = I(Y,i) \]

IS: \[ Y = C(Y-T) + I(Y,i) + G \]

Why 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