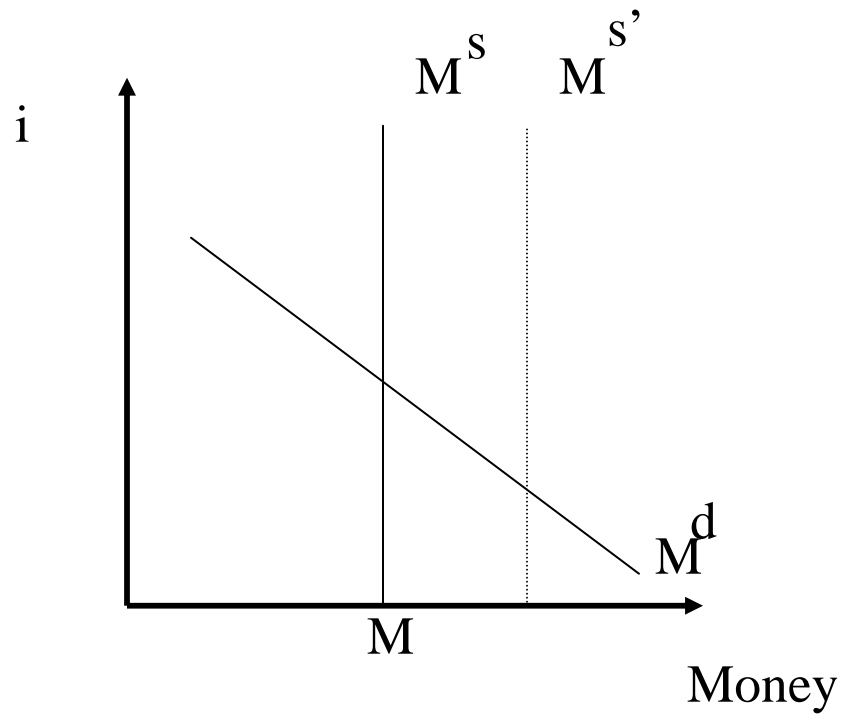


# Lecture 6: IS-LM (2)

- 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

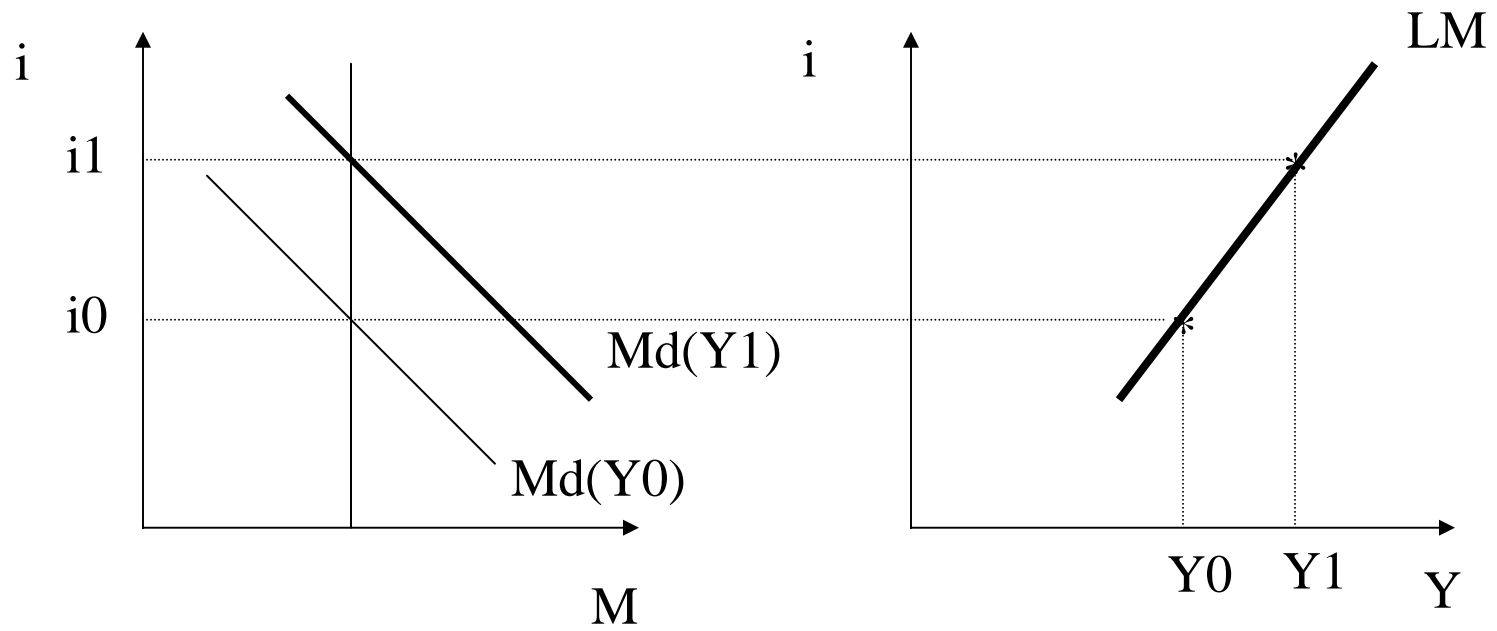
$$M_s = \frac{H}{c + \theta(1-c)}$$

$$M_s = M_d \Rightarrow$$

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

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

# LM



A) Expansionary Monetary Policy; B)  $Y_2k$

# IS

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

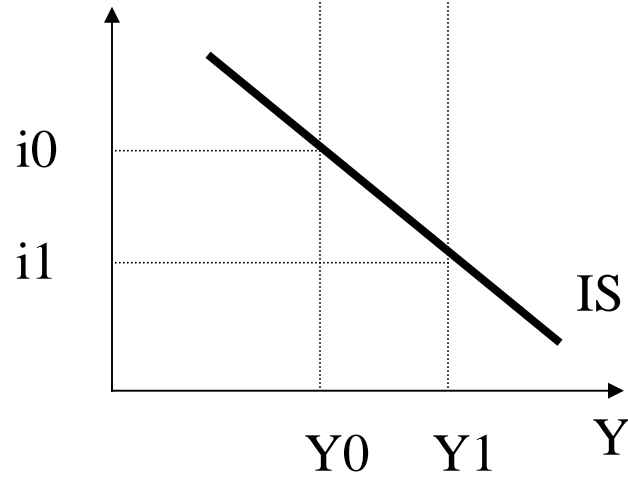
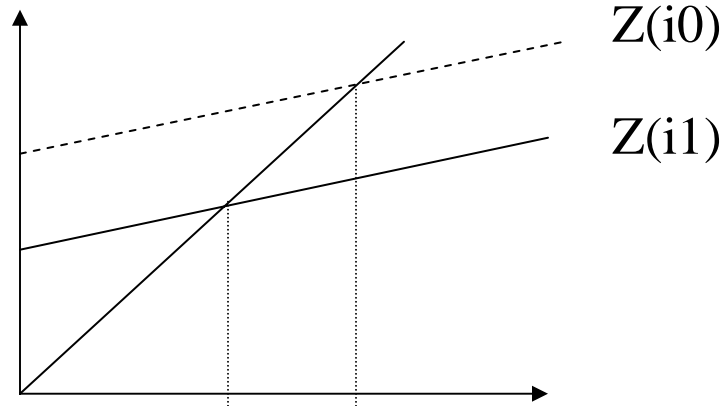
$$I = I(Y,i)$$

+ -

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

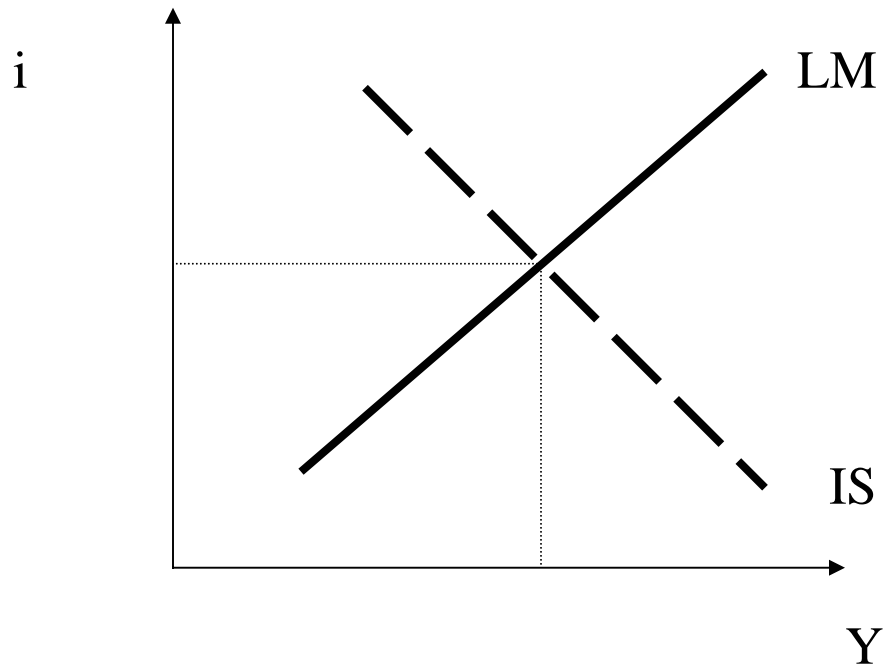
Why IS?

# IS



- A) Fiscal Policy;
- B) "Optimism"

# IS-LM Model



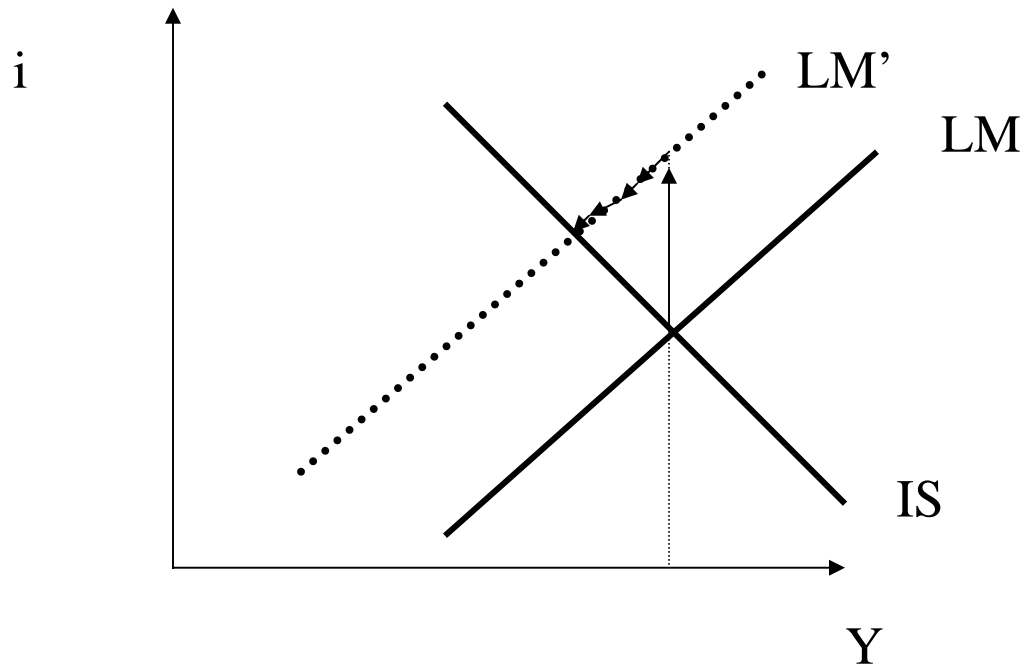
A) Fiscal policy; B) Monetary policy; C) Mix

# 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