Economics 302
Intermediate Macroeconomic Theory and Policy
(Spring 2010)

Lecture 8

Monday, February 15, 2010

Outline

- Deriving IS, LM
- Graphical depiction of policy
- Extreme cases
- An Extreme Case in Context

IS-LM equations

(13) $$R = -\left(\frac{1-b(1-t)+m}{d+\tilde{n}}\right)Y + \left(\frac{1}{d+\tilde{n}}\right)A_0$$ <IS curve>

(17) $$R = \frac{\mu}{h} - \left(\frac{1}{h}\right)\left(\frac{\overline{M}}{P}\right) + \left(\frac{k}{h}\right)Y$$ <LM curve>

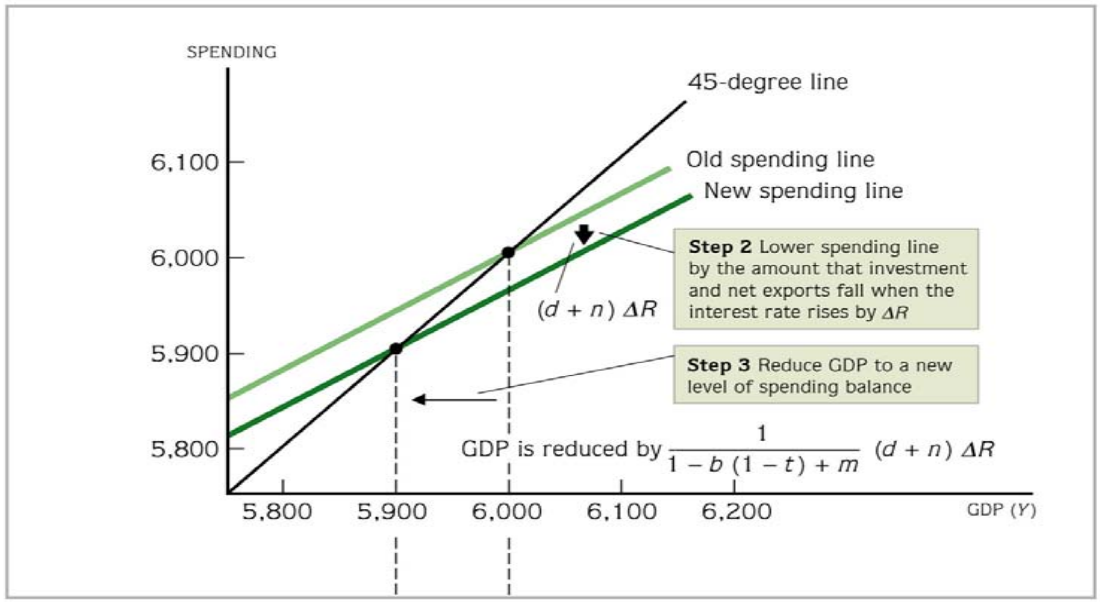


FIGURE 8.3 Graphic Derivation of the IS Curve (top)

Macroeconomics, 6th Edition
Copyright © 2005 W. W. Norton & Company

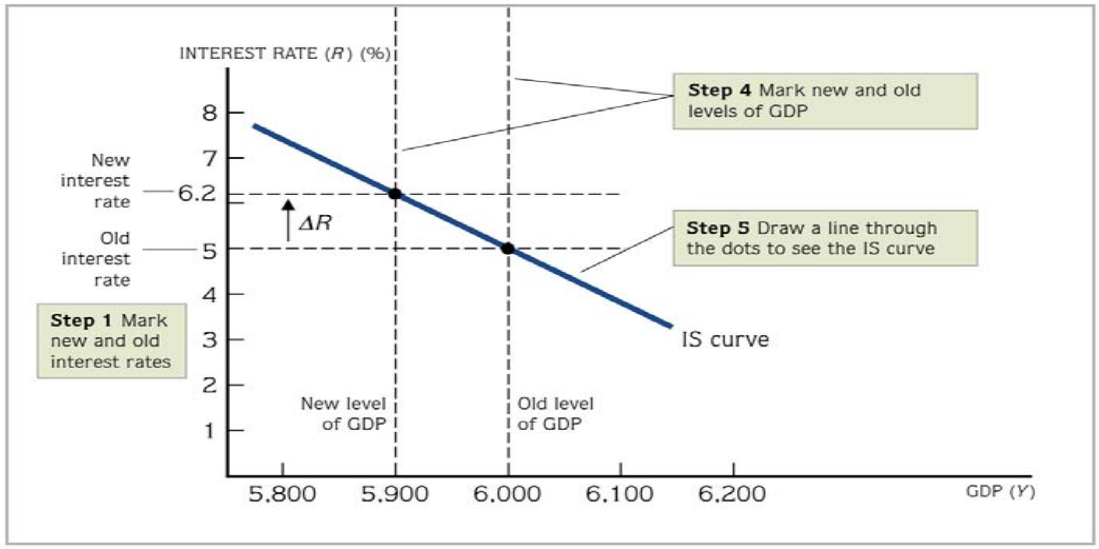


FIGURE 8.3 Graphic Derivation of the IS Curve (bottom)

Macroeconomics, 6th Edition
Copyright © 2005 W. W. Norton & Company

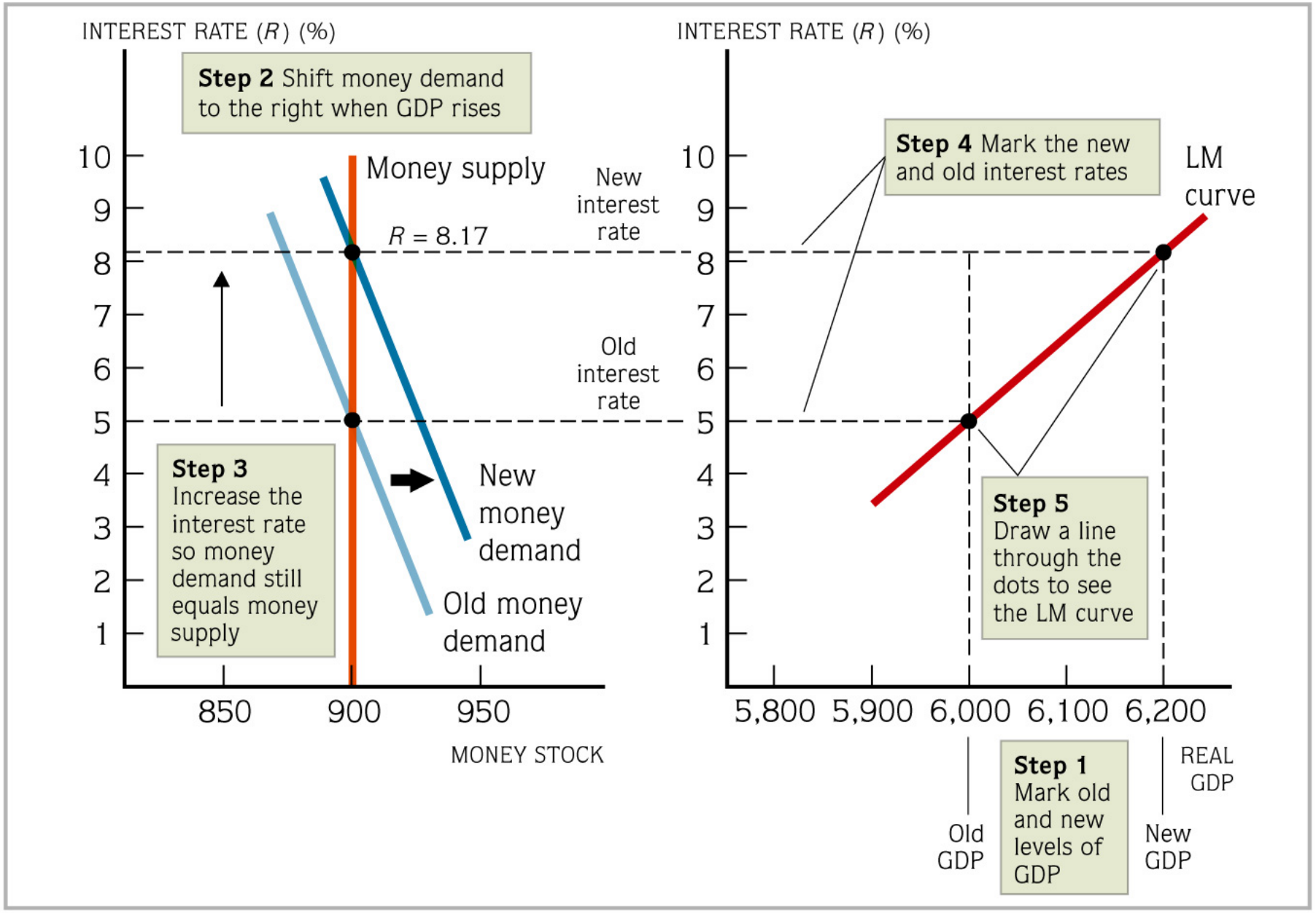
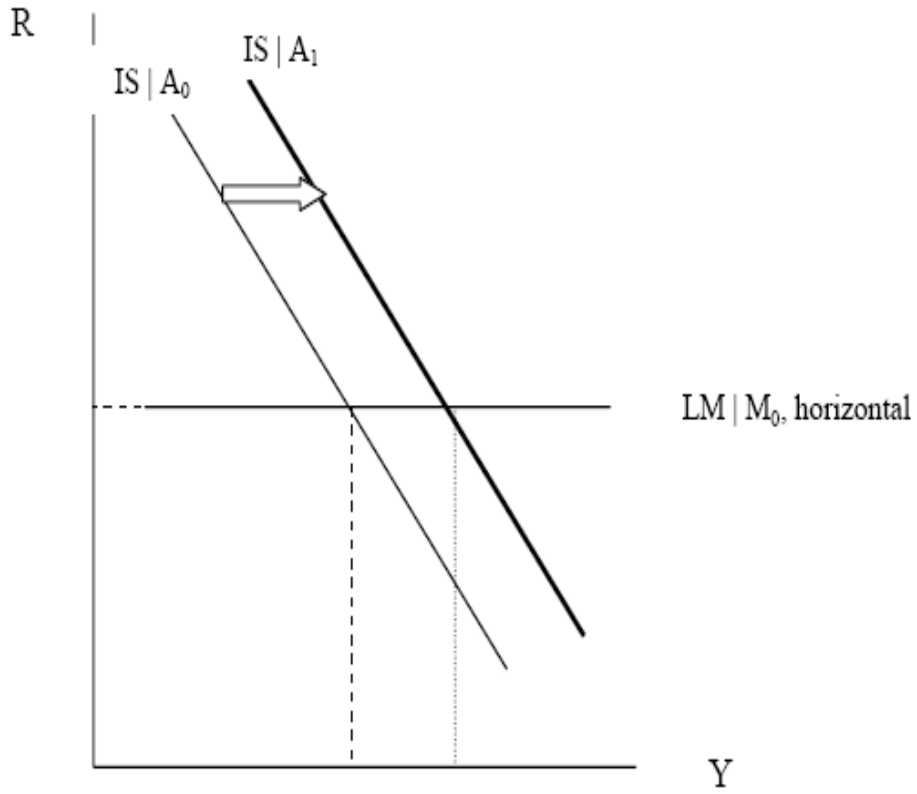


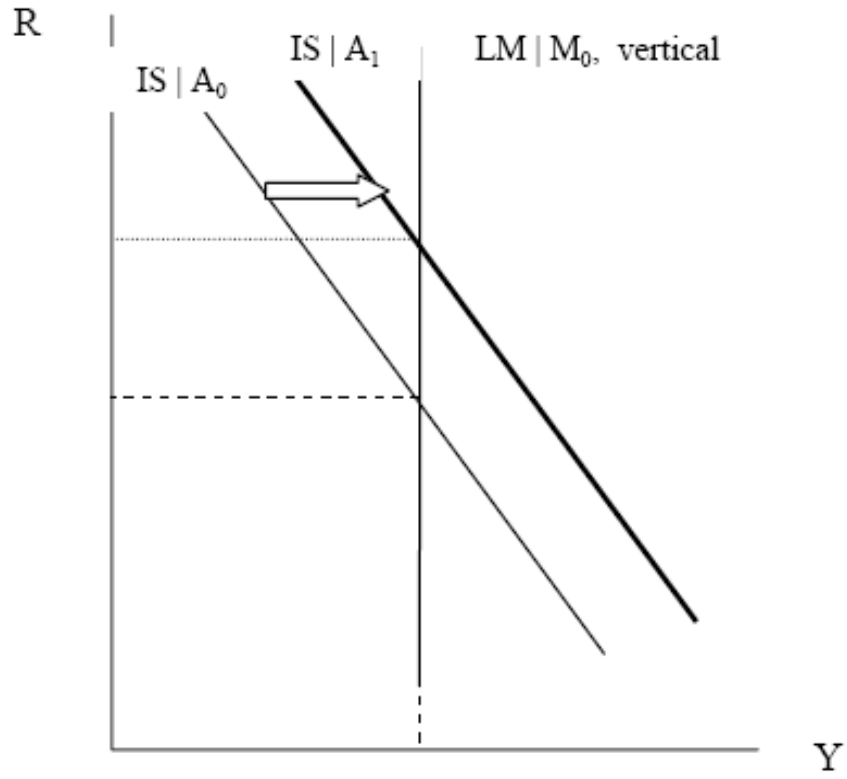
FIGURE 8.5 Graphical Derivation of the LM Curve

Macroeconomics, 6th Edition

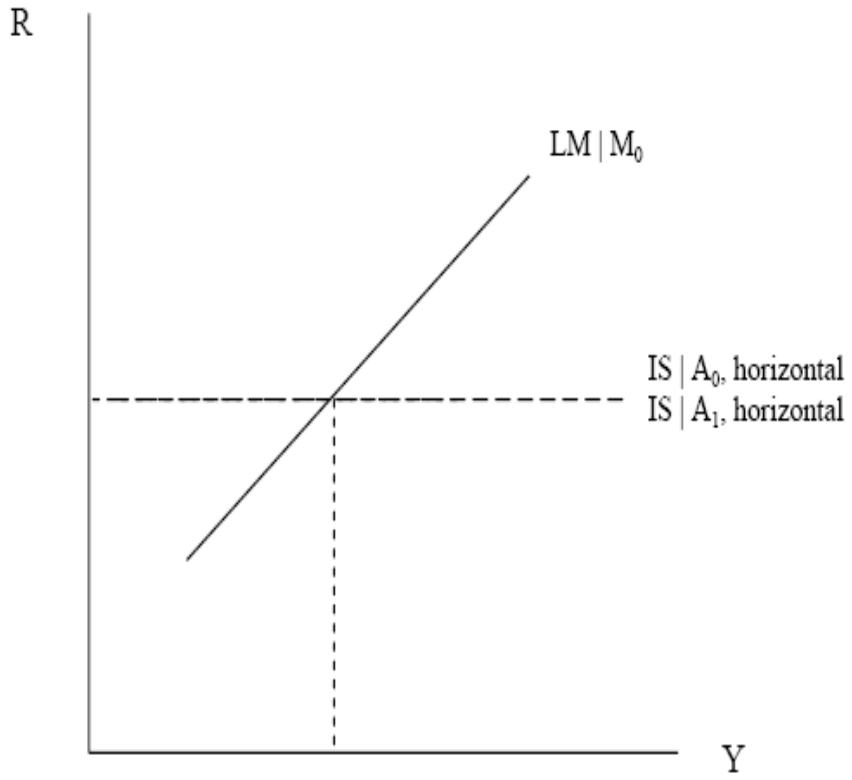
Copyright © 2005 W. W. Norton & Company

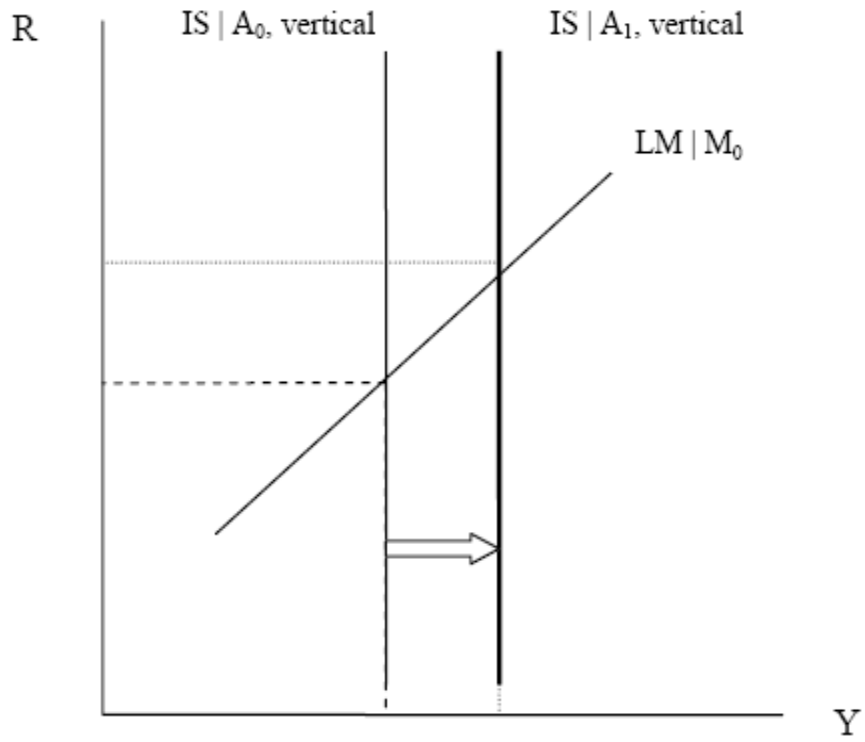
Extreme Cases: Fiscal (I)



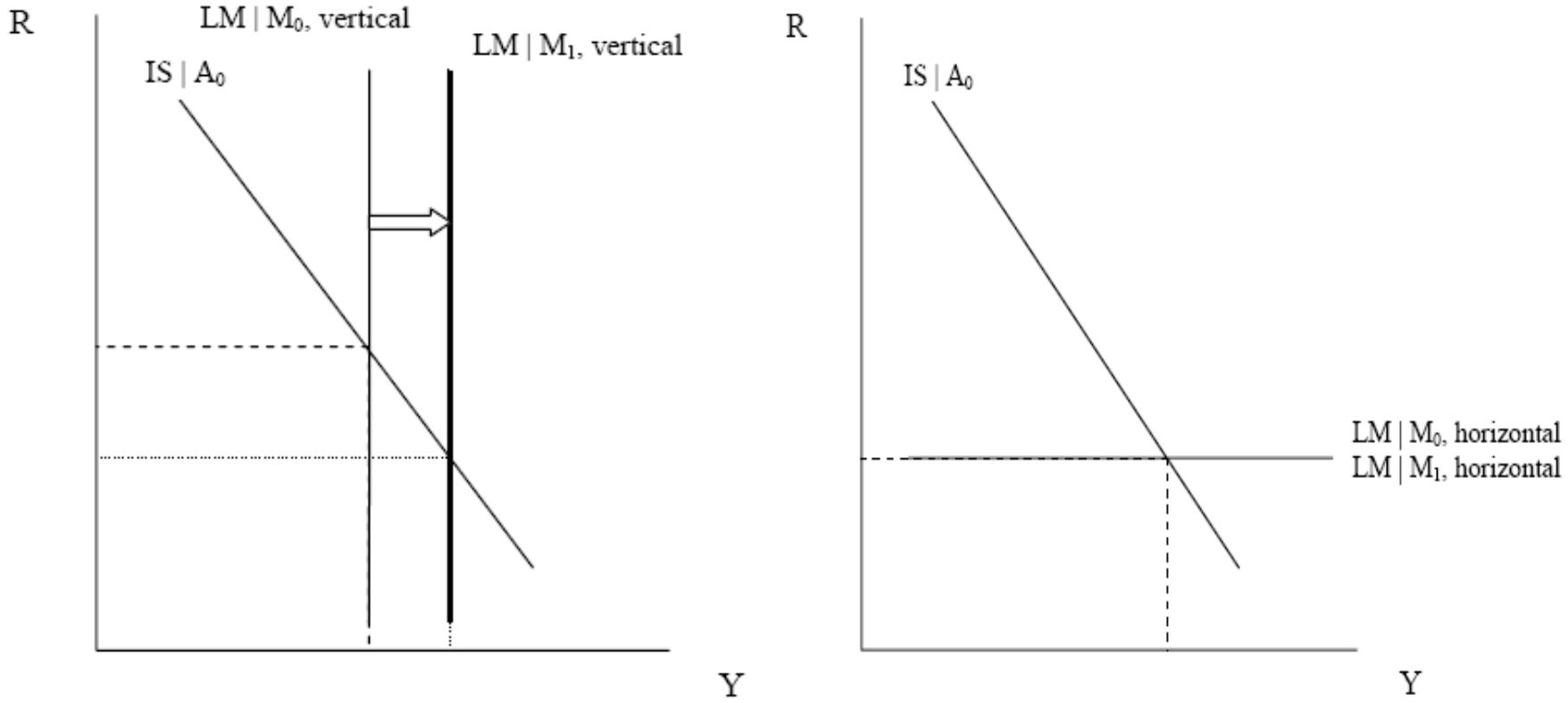


Extreme Cases: Fiscal (II)

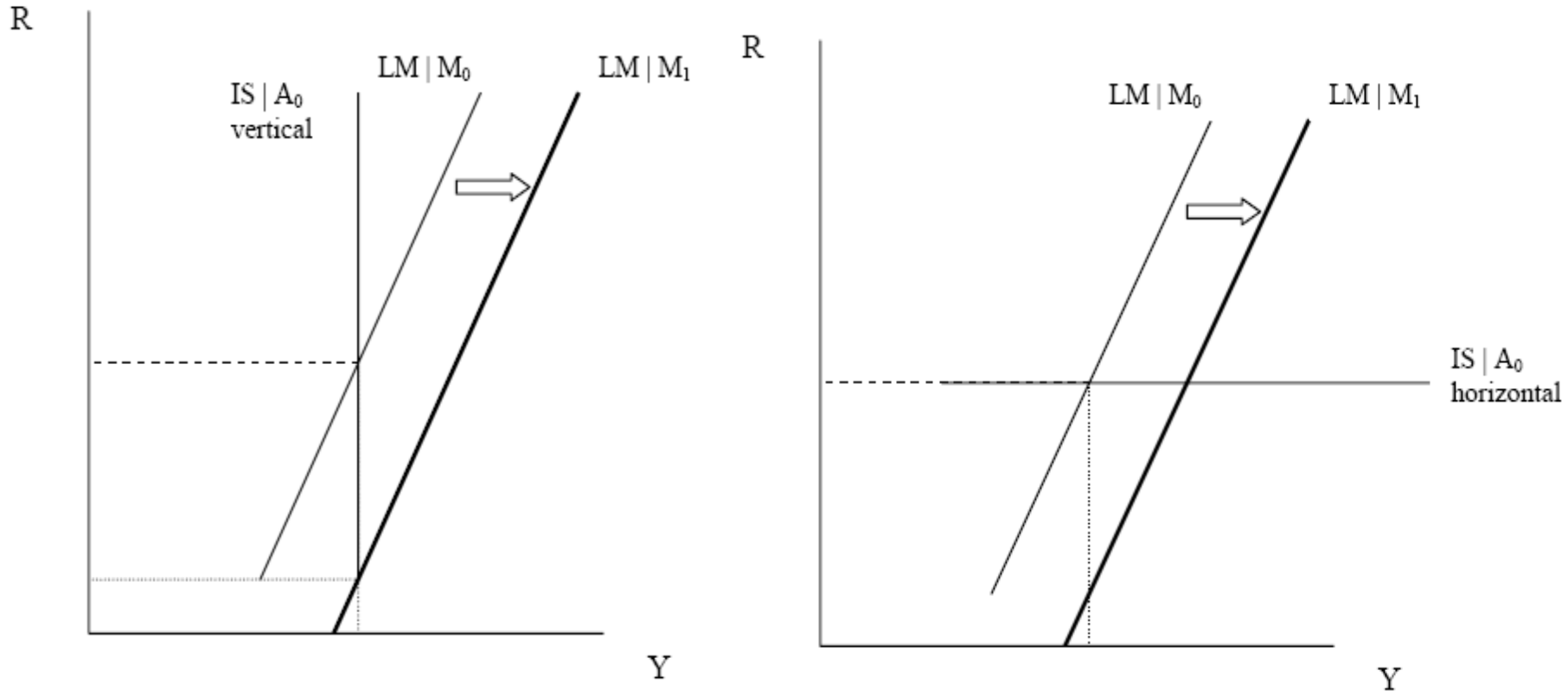




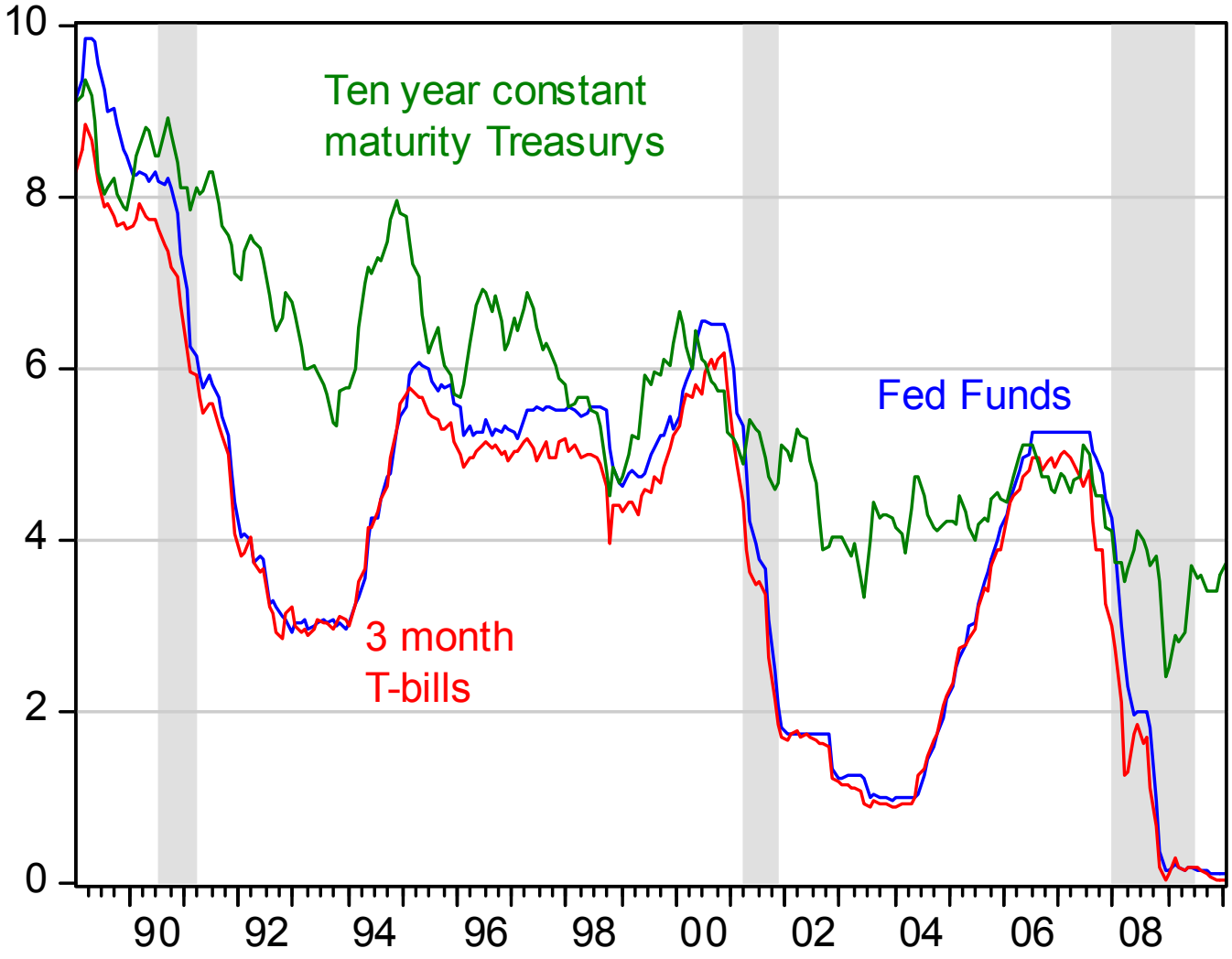
Extreme Cases: Monetary (I)



Extreme Cases: Monetary (II)



Zero Interest Rate Bound



Source: St. Louis Fed FREDII, accessed 2/13/10

Policy in the ZIRP World