Outline

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

\begin{align*}
(13) \quad R &= -\left( \frac{1 - b(1-t) + m}{d + \tilde{\eta}} \right) Y + \left( \frac{1}{d + \tilde{\eta}} \right) A_0 \quad \text{<IS curve>}
\end{align*}

\begin{align*}
(17) \quad R &= \frac{\mu}{h} - \left( \frac{1}{h} \right) \left( \frac{\bar{M}}{P} \right) + \left( \frac{k}{h} \right) Y \quad \text{<LM curve>}
\end{align*}
FIGURE 8.3 Graphic Derivation of the IS Curve (top)

FIGURE 8.3 Graphic Derivation of the IS Curve (bottom)
FIGURE 8.5 Graphical Derivation of the LM Curve
Extreme Cases: Fiscal (I)
Extreme Cases: Fiscal (II)
Extreme Cases: Monetary (I)
Extreme Cases: Monetary (II)
Hitting the Zero Interest Bound

\[ R = 0 \]

\[ \frac{\mu_0}{h} - \frac{1}{h} \left( \frac{M_0}{P_0} \right) \]