

Problem on IS/LM and IS/MP

I) Describe how, if at all, each of the following developments affects the IS and/or MP curves:

a) Taxes fall.

b) Government purchases fall, and at the same time the Federal Reserve changes its policy rule to set a higher real interest rate at a given level of output than before.

c) The demand for money increases (that is, consumer's preferences change so that at a given level of i and Y they want to hold more real balances than before).

d) Investment demand becomes less sensitive to the interest rate. I) Describe how, if at all, each of the following developments affects the IS and/or LM curves Do 5.1 in the textbook, in the context of the IS/MP model.

II) What happens if there is a decrease in expected inflation

a) in the IS/MP model?

b) in the IS/LM model?

III) Describe how, if at all, each of the following developments affects the IS and/or LM curves:

a) Taxes fall.

b) Government purchases fall, and at the same time the Federal Reserve reduces the money supply.

c) The demand for money increases (that is, consumer's preferences change so that at a given level of i and Y they want to hold more real balances than before).

d) Investment demand becomes less sensitive to the interest rate. I) Describe how, if at all, each of the following developments affects the IS and/or LM curves Do 5.1 in the textbook, in the context of the IS/MP model.