Chapter 11 Review

IS-LM: Living La Vita Corto Plazo

Readings
Chap. 11: all, Don’t sweat the section on “The IS-LM in the Short Run and Long Run” pp 294 - 295

Outline

I. IS-LM Together (a happy, short-run, marriage)

II. Analyzing Policy Changes
   A. Fiscal policy
   B. Monetary Policy
   C. Fiscal and Monetary policy changes together
   D. Whither interest rates? The effects of monetary policy.
      1. The Keynes effect
      2. The Fisher effect

III. An Application: The Great Depression
   A. Overview of the Depression
   B. AD-SRAS during the Great Depression
   C. IS-LM in the Great Depression
   D. The Debt Deflation Hypothesis

Problems to Study (Not Graded)

1. p 305: Questions For Review # 1. (Key question)
2. p 305: Questions For Review # 2. (Key question)
3. p 305: Questions For Review # 3. (Key question)
5. p 305: Problems and Applications # 1. (Key question)
6. p 305: Problems and Applications # 2.
7. p 305: Problems and Applications # 5. (Key question)
8. p 305: Problems and Applications # 6. (Key question)
10. What happened to real investment spending over the course of the Great Depression period (1929 – 1940)? How do these changes in real investment spending help explain the Great Depression and the U.S. economy’s recovery from it?

11. What happened to real government spending over the course of the Great Depression period (1929 – 1940)? How do changes in government spending help explain the Great Depression and the U.S. economy’s recovery from it?

12. What happened to the (real) money supply over the course of the Great Depression period (1929 – 1940)? How do changes in the (real) money supply help explain the Great Depression and the U.S. economy’s recovery from it?

13. What is the Debt-Deflation Hypothesis? How does it relate, both theoretically and empirically, to the Great Depression in the U.S.?

14. Assume Mexico’s Central Bank decides to greatly increase the Mexican money supply.

?? What happens to interest rates in Mexico in the short-run because of this? What is the name of this short-run effect and why does it happen? You can/should assume Mexico is a closed economy (doesn’t always face the world interest rate) when answering this one.

?? What happens to interest rates in Mexico in the long-run because of this? What is the name of this long-run effect and why does it happen?