LECTURE 11
EXTENDING THE IS/MP/IA FRAMEWORK
FEBRUARY 26, 2013

I. INTRODUCTION

II. THE IS-MP-IA MODEL EXTENDED
   A. Assumptions
      1. The nominal interest rate can’t be negative
      2. Expected inflation depends on actual inflation
      3. Discussion
   B. The AD Curve
      1. Where we are headed
      2. The IS-MP diagram
      3. Deriving the AD curve
   C. A Little Bit about the Case of Money Targeting

III. EXAMPLES
   A. A Large, Long-Lasting Fall in Planned Expenditure
      1. The initial situation
      2. The shock
      3. The dynamics of the economy
      4. What happens when there is a rebound in planned expenditure
      5. How seriously should we take this?
   B. The Case of “Anchored” Expectations
      1. Overview
      2. A model of anchored expectations
      3. The effects of a large, long-lasting fall in planned expenditure
      4. A concern: how long can this last?

IV. POLICIES TO DEAL WITH THE ZERO LOWER BOUND: OVERVIEW
   A. Shifting the IS Curve
      1. The effects of shifting the IS curve at the zero lower bound
      2. Fiscal policy
      3. Affecting expectations of future output
      4. Affecting long-term real interest rates (at a given real policy interest rate)
      5. Exchange rate policies
   B. Shifting the MP Curve