LECTURE 5

REVIEW OF IS–LM/MP FRAMEWORK
FEBRUARY 5, 2013

I. THE IS–LM/MP MODEL
   A. Overview
      1. Introduction
      2. Where we are headed
      3. A key assumption
      4. A general comment about models
   B. Review of the IS Curve
      1. Planned expenditure and output
      2. Modeling planned expenditure
      3. The Keynesian cross
      4. Deriving the IS curve
   C. One Approach to the Other Curve: The MP Curve
      1. An interest rate rule
      2. The MP curve and the IS-MP diagram
      3. But how is the central bank able to control the real interest rate?
   D. Another Approach to the Other Curve: The LM Curve
      1. Introduction
      2. The concept of money we will focus on
      3. The supply and demand for money
      4. The interest rate for a given level of output: the money market
      5. Deriving the LM curve
   E. MP or LM?

II. EXAMPLES
   A. A Fall in Investment Demand
      1. The shock
      2. The effects when the central bank follows an interest rate rule
      3. The effects when the central bank targets the money supply
   B. Financial Innovation
      1. The shock
      2. The effects when the central bank targets the money supply
      3. The effects when the central bank follows an interest rate rule