BS2551 Money Banking and Finance

Seminar 6: IS-LM

Consider the following IS-LM model.

$$C = 200 + 0.25Y_D$$
$$I = 150 + 0.25Y - 1000i$$
$$G = 250$$
$$T = 200$$
$$Md = 2Y - 8000i$$
$$Ms = 1{,}600$$

a) Derive the IS curve equation.

b) Derive the LM curve equation.

c) Solve for the equilibrium level of output.

d) Solve for the equilibrium interest rate.

e) Suppose the money supply increases to 1840. Solve for Y and i and explain in words the effects of expansionary monetary policy.

f) Set the money supply to its initial value of 1600. Now suppose that government expenditure (G) increases to 400. Summarize the effects of expansionary fiscal policy on Y and i.