Quiz Question3

The error arose from me incorrectly transferring the investment equation to the board. The IS equation should have been

$$Y = 1800 - 4000r \tag{1}$$

and the LM equation remains

$$Y = 800 + 4000r \tag{2}$$

When you subtract (2) from (1), you get

$$0 = 1000 - 8000r$$

After some minor manipulation you get the equilibrium output Y^* and interest rate r^*

$$(r^*, Y^*) = (0.125, 1300)$$

With this you can plug in and solve for consumption and investment,

$$(C, I) = (1025, 25)$$