Assume an economy that starts with 𝑌 = 𝑌𝑛. Illustrate graphically, explain, and critically discuss the impact of an expansionary monetary policy shock (e.g., arise in the money supply or a fall in the interest rate) depending on whether we use a Simple Classical Model, the Blanchard IS-LM-PC model with anchored expectations and endogenous money, or the Anti-Blanchard IS-LM-PC model with anchored expectations and endogenous money where firms have the power to adjust the economy after a shock. You can assume that nominal interest rates will not reach the zero lower bound. Considering empirical evidence and the model’s theoretical assumptions, provide a full and broad critical discussion of the strengths and limitations of the Blanchard IS-LM-PC model.

Plan:

* Introduction
* What is the impact of the shock?
  + Simple classical model
    - No effect – monetary policy can only have effects on aggregate demand, whereas output is only determined by the labour market equilibrium. Since output is equal to M/P, this means that whenever the money supply increases, the price level must also increase.
  + Blanchard IS-LM-PC with anchored expectations and endogenous money
    - A fall in the interest rate causes the LM curve to shift downward, which causes *Y* to rise and we consequently find ourselves in an inflationary period due to the Phillips curve relation. This will affect the income distribution in the labour market.
  + Anti-Blanchard IS-LM-PC
    - Same as Blanchard, but when it comes to the labour market, firms and workers will adjust their habits to lower inflation. If workers have more controls, wages will rise – if firms have more control, mark-up will rise.
  + Criticisms of Blanchard IS-LM-PC
    - Empirical evidence for hysteresis?
    - Wildauer et al. paper emphasising importance of factoring in wage changes into the IS curve,
  + Strengths of Blanchard IS-LM-PC
    - /shrug face/

The Simple Classical Model (SCM) of the economy takes the position of monetary neutrality, which means that monetary policy has no impact on the output level in an economy; instead, output is determined by the labour market.

Use the three-panel internal economies of scale diagram to show the overall impact of trade integration between two identical economies. Now, assume the UK was at 𝑌 = 𝑌𝑛 when the UK left the European Union. Given the change in the average mark-up in the UK due to Brexit implied by your analysis in the first part of your answer, use the Blanchard IS-LM-PC model alongside a graph of inflation over time to explain the impact of this change in the mark-upon the UK economy under two scenarios: i) if the central bank responds by raising interest rates versus ii) if there is higher immigration to the UK. Discuss the overall macroeconomic impact of Brexit on the UK economy between 2016 and 2022.

* Introduction