231020 – IS Curve – Derivation

$$Y_t = C_t + I_t + G_t + X_t - M_t$$ $$\frac{Y_t}{\bar{Y}_t} = \frac{C_t}{\bar{Y}_t} + \frac{I_t}{\bar{Y}_t} + \frac{G_t}{\bar{Y}_t} + \frac{X_t}{\bar{Y}_t} - \frac{M_t}{\bar{Y}_t}$$ $$\frac{Y_t}{\bar{Y}_t} = \bar{a}_C + \bar{x}\tilde{Y}_t + \bar{a}_I - \bar{b}(R_t - \bar{r}) + \frac{\bar{a}_G \bar{Y}_t}{\bar{Y}_t} + \frac{\bar{a}_X \bar{Y}_t}{\bar{Y}_t} - \frac{\bar{a}_M \bar{Y}_t}{\bar{Y}_t}$$ $$\frac{Y_t}{\bar{Y}_t} - 1 = \underbrace{\bar{a}_C + \bar{a}_I + \bar{a}_G + \bar{a}_X - \bar{a}_M - 1}_{\equiv \bar{a}} + \bar{x}\tilde{Y}_t - \bar{b}(R_t - \bar{r})$$ $$\tilde{Y}_t = \bar{a} + \bar{x}\tilde{Y}_t - \bar{b}(R_t - \bar{r})$$ $$\tilde{Y}_t = \frac{1}{(1-\bar{x})}\left(\bar{a} - \bar{b}(R_t - \bar{r})\right)$$

$\frac{1}{1-\bar{x}}$	$\bar{a}$ is normally equal to zero. Why?
When $\bar{a} \neq 0$, we call this an __________ ______________ shock.	

231020 – Using the IS Curve

Movement along the curve or a shift?		
R_t increases?	$\bar{a}$ increases?	$\bar{b}$ increases?
Life-cycle model suggests households (HH) ___________ consumption over their lifetime. Permanent income hypothesis suggests HH spend __________ percent of their expected _________ earnings. How are these hypotheses linked to the IS model?		
Contrary to the PI or Lifecycle model, we see HH typically spend about 30% of "surprise" earnings. What component of the IS curve best matches this empirical result?		
What are automatic stabilizers? What types of policies are stabilizers?		
What is the concept of Ricardian Equivalence?		